Ohio Police & Fire Pension Fund

2006 Comprehensive Annual Financial Report

For the year ending December 31, 2006

Ohio Police & Fire Pension Fund

www.op–f.org

Comprehensive Annual Financial Report

For the year ending December 31, 2006

Prepared through the combined efforts of OP&F staff.

Ohio Police & Fire Pension Fund

140 East Town Street • Columbus, Ohio 43215
www.op–f.org • 800–860–9599

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Board of Trustees

Board of Trustee Members

Back row, left to right

- Scott Maynor, Lyndhurst Fire Department, term began on 6/5/2006, expires on 6/5/2010
- Gerald R. Williams, Investment Member, appointed by the Ohio Senate and House of Representatives, term began on 11/4/2004, expires on 11/4/2008
- Robert Baker, Investment Member, appointed by the Governor, term began on 9/29/2004, expires on 9/28/2008
- David L. Gelbaugh, Investment Member, appointed by the Treasurer of State, term began on 2/21/2005, expires on 12/1/2008

Front row, left to right

- Kathy Harrell, Cincinnati Police, term began on 10/23/2006, expires on 7/1/2007
- William Deighton, Vice Chair, Retired, Cleveland Fire, term began on 6/2/2003, expires on 6/3/2007
- Lawrence Petrick, Jr., Chair, Shaker Heights Fire, term began on 6/7/2004, expires on 6/1/2008
- Anthony J. Gorsek, Cleveland Police, term began on 6/6/2005, expires on 5/31/2009
- William Gallagher, Retired, Cleveland Police, term began on 6/1/2003, expires on 6/1/2008

About The Board Of Trustees

Ohio law provides for the Ohio Police & Fire Pension Fund Board of Trustees to be comprised of nine members. There are six employee members elected to four–year terms by their respective member groups: two representatives of police departments, two representatives of fire departments, one retired firefighter and one retired police officer. The Board also includes three statutory members, which have changed with the enactment of Senate Bill 133 in September 2004. Each statutory member—one appointed by the Governor, one by the Treasurer of State, and one appointed jointly by the Senate President and Speaker of the House—must have professional investment expertise.

Administrative Staff

Administrative staff

Left to right

- J. Keith Byrd, Deputy Executive Director
- William J. Estabrook, Executive Director
- Stewart A. Smith, Chief Financial Officer
- Scott K. Miller, Internal Auditor
- Theodore G. Hall, Chief Investment Officer
- N. Kay Penn, Member Services Director
- Diane M. Lease, General Counsel

Professional Consultants

Actuary

Buck Consultants

Legal Counsel

Ohio Attorney General, the Honorable Jim Petro

Independent Accountants

Clark, Schaefer, Hackett & Co.

Investment Consultants & Managers

(See page 44)

Lawrence J. Deck, 1959–2006

The unexpected passing of Larry Deck in July 2006 was unfortunate and saddening. He was a strong leader, advocate for Ohio's public safety officers and a great asset to OP&F's Board.

Larry began serving on the Board in 2004, was elected chair elect in 2005, and assumed chair in June 2006. While serving on the Board, he showed great leadership and continued to head the Columbus Police Crime Scene Search Unit as sergeant and remained active with the Fraternal Order of Police, where he also served in upper–level positions.

He will be remembered as a good person who liked helping people and was able to quickly assess situations and come up with a solution that all parties could agree upon, which made him a respected union contract negotiator.

Our community lost a great citizen, police officer, co–worker, friend, and family member, but we gained the pleasure of knowing Larry and experienced the impact he made in all of our lives.

Certificate of Achievement Award

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Ohio Police & Fire Pension Fund

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Letter of Transmittal

Ohio Police & Fire Pension Fund
140 East Town Street / Columbus, Ohio 43215–5164 / Tel. (614) 228–2975 / www.op–f.org

June 20, 2007

Dear Chairman and Members of the Board of Trustees:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the Ohio Police and Fire Pension Fund (OP&F) for the year ended December 31, 2006. This CAFR was prepared to aid interested parties in assessing OP&F's financial status at December 31, 2006, and its results for the year then ended.

The report is divided into five sections:

(1) The Introductory Section contains this Letter of Transmittal, along with the identification of the administrative organization of OP&F and the Certificate of Achievement for Excellence in Financial Reporting;
(2) The Financial Section includes the Management's Discussion and Analysis (MD&A), Independent Auditors' Report, Basic Financial Statements, Notes to Basic Financial Statements, Required Supplementary Information (RSI), notes to RSI and additional information;
(3) The Investment Section contains the investment report, portfolio summary, and the investment policy and guidelines;
(4) The Actuarial Section includes significant actuarial data pertaining to OP&F and the certification letter from Buck Consultants and results of their annual actuarial valuation; and
(5) The Statistical Section includes historical data reporting progress of OP&F.

Accounting System and Internal Controls

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental units, including the pronouncements of the Governmental Accounting Standards Board (GASB). Additional information on OP&F's significant accounting policies are contained in the Notes to Combining Financial Statements in the Financial Section.

Management is responsible for establishing and maintaining an effective internal control structure designed to ensure that the assets of OP&F are protected from loss, theft, or misuse; and to ensure that adequate accounting data is compiled to allow for the preparation of Basic Financial Statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that:

(1) the cost of a control should not exceed the benefits likely to be derived; and
(2) the valuation of costs and benefits requires estimates and judgments by management.

Management believes its internal control structure meets these objectives.

Plan History and Overview

OP&F is a cost sharing multiple–employer public employee retirement system and was created by the Ohio General Assembly in 1965, replacing 454 separate local police and firefighter relief and pension funds in Ohio. OP&F began operating as a statewide retirement fund on January 1, 1967. On that date, the local pension funds transferred their assets and liabilities to OP&F. Assets transferred to OP&F totaled approximately $75 million, while OP&F's actuary computed the liabilities accrued up to 1966 at approximately $490 million. Employers are paying the remaining unfunded accrued liability over a 67–year period, which began in 1969 and totaled nearly $35.3 million as of December 31, 2006.

OP&F provides pension and disability benefits to qualified participants, survivor, and death benefits as well as access to health care coverage for qualified spouses, children and dependent parents. Please refer to the Plan Summary in the Actuarial Section for further information on plan benefits.

Membership in OP&F is mandatory under Ohio law for all full–time police officers employed by Ohio municipalities. Full–time fire fighters employed by townships, municipalities, township joint fire districts or other political subdivisions must become members of OP&F if satisfactory completion of a firefighter training course approved under former Section 3303.07, Section 4765.55, or conducted under Section 3737.33 of the Ohio Revised Code is required for employment. The table below is a tabulation of current participating employers at December 31, 2006:

Participating Employers

	Police	Fire	Total
Municipalities	252	225	477
Townships	—	119	119
Villages	284	32	316
TOTAL	**536**	**376**	**912**

Major Initiatives and Accomplishments

During 2006, OP&F completed a three–year Strategic Plan and a new Benefit Funding Policy & Administration Guide. These tools will be utilized to ensure OP&F remains on track as it relates to funding benefits, improving services to our members and our employers, improving OP&F's overall funding status and funding ratios, and maintaining the discretionary Post–Employment Health Care Fund for the foreseeable future.

OP&F also had significant accomplishments in 2006 as progress was made on collecting past–due contributions and penalties from delinquent employers. While a large majority of OP&F employers continually remain in compliance with prompt submission of all contributions due, a small number of employers owed significant amounts of money for long periods of time.

OP&F also completed a customer satisfaction survey to measure member opinions about the information and services OP&F provides, along with the effectiveness of programs and communications. The Communications Group and Executive Director worked in conjunction with OP&F's public relations consultant and a professional survey/data analyst firm to develop the survey. The survey was released and reported to the Board of Trustees in December 2006. OP&F received high marks in a variety of areas and is assessing all areas for improvements.

Separately, OP&F continued the initiatives to provide access to health care with a new Integrated Health Care Program. On April 7, 2006 the Board approved changes to the OP&F sponsored health care plan that includes:

- Offering one plan and two network carriers for 2007, and the elimination of our Health Maintenance Organization (HMO) options;
- The establishment of a lifetime maximum coverage amount of $2.5 million per person;
- A single health care benefit plan and prescription drug plan design with new deductibles and co–pays;
- Adjusted subsidies for dependents; and
- A requirement that spouses must enroll in their employers' health coverage, if available, or pay the full premium to enroll in OP&F–sponsored health care.

A Request for Proposal (RFP) process to select one vendor to provide an integrated health care program and provide third party service for the Medicare eligible recipients for the January 1, 2008 health care plan year was completed. Contract negotiations are engaged and should be completed by June 2007 with an implementation date of January 1, 2008.

Financial Overview

OP&F receives virtually all of its funds from the following sources: employer contributions, member contributions, benefit recipient health care premiums, state subsidies and reimbursements, and investment earnings. Additions to net assets totaled almost $2.3 billion in 2006 due to investment market returns. Employer and member contribution rates for 2006 were 10 percent for members, 19.5 percent for police employers and 24 percent for fire employers, and remained unchanged.

Additions to Plan Net Assets (dollars in thousands)	2006 Amount	2006 Percent	2005 Amount	2005 Percent
Net Investment Income	$ 1,629,758	72 %	$ 847,359	59 %
Contributions	600,959	27 %	581,305	40 %
Interest on Local Funds Receivable	1,517	0 %	1,549	0 %
Other	22,476	1 %	8,676	1 %
TOTAL	**$ 2,254,710**	**100 %**	**$ 1,438,889**	**100 %**

Deductions to Plan Net Assets (dollars in thousands)	2006 Amount	2006 Percent	2005 Amount	2005 Percent
Benefits	$ 945,440	96 %	$ 876,697	96 %
Administrative Expenses	16,762	2 %	15,930	2 %
Refund of Employee Contributions	17,983	2 %	16,471	2 %
Other	(419)	0 %	157	0 %
TOTAL	**$ 979,766**	**100%**	**$ 909,255**	**100%**

Significant increases in the Net Investment Income line is directly related to the investment market returns experienced in 2006. OP&F achieved a 16.15 percent rate of return on investments in 2006 versus a revised 9.07 percent in 2005.

Other income is also reflecting a large increase due to the first time reimbursement from the Medicare Part D subsidy program ($7.5 million) and for greater than expected revenues related to rebates and recoveries. Benefits increased due to the compounding of accrued Deferred Retirement Option Plan (DROP) benefits, and will continue to increase due to a high participation rates. Other benefits increased at normal levels due to new retirees.

Administrative expenses and refunds are higher than in prior years and are related to normal increases in operating costs and portability of contributions to other plans. Other deductions to Plan Net Assets are related to the reclassification of unclaimed funds and overpaid receivables.

Please refer to the Management's Discussion and Analysis for additional financial details.

Funding Practices and Actuarial Overview

Funds are derived from the excess of additions over deductions, and are accumulated by OP&F in order to meet current and future benefit obligations to retirees and other beneficiaries. Due to recoveries experienced in global equity markets over the past couple years, OP&F experienced an increase in plan net assets in 2006 by approximately $1.3 billion. The current actuarial analysis performed on the pension benefits reflects an "infinite" amortization period and a funding level of 78.3 percent. Our current health care fund has a projected solvency period of at least 10 years. While OP&F believes our current funding status is strong, the law requires that a 30–year or less amortization period on pensions be achieved or an approved plan needs submitted to the Ohio Retirement Study Council (ORSC). A plan was approved by the Board and submitted to the ORSC in April 2006, the plan included major changes to health care funding and benefits, and a recommendation that the legislature amend the law to provide for member contribution increases and employer contributions increases. OP&F is implementing the health care recommendations, but legislative action is needed on the contribution increases, which have not yet occurred.

Retiree health care currently operates on a pay–as–you–go basis with a minimal amount of reserves being set aside to operate the program. OP&F has adopted GASB Statement No. 43, which requires disclosure of future health care liabilities and funded status for OP&F's discretionary health care plan offerings. While these benefits are not guaranteed, this disclosure is made on the basis of the current health care plan, as it is currently defined. OP&F has also adopted GASB Statement No. 44, which stands to improve the understandability and usefulness of the Statistical Section information.

Please see the notes to the financial statements, the Statistical Section and the RSI sections of this report for more detailed information.

Investment Policy

OP&F invests all available funds in order to maximize both current income and long–term appreciation. The primary objective of OP&F's investment policy is to assure that OP&F meets its responsibilities for providing retirement and other benefits. The portfolio is diversified to provide adequate cash flow and to provide the highest possible total return on OP&F's assets with the least exposure to risk. Over the past two years, OP&F's total rate of return on its investment portfolio has been favorable with gains of 16.15 percent for 2006, and a revised rate of 9.07 percent for 2005. These recent rates of return compare favorably to our actuarial rate of return of 8.25 percent.

Details of portfolio composition, rates of return, analysis of significant economic conditions, and additional information concerning OP&F's investment policy are provided in the Investment Section of this report.

Material Plan Amendments

There were no material plan amendments in 2006. See the Actuarial Section for the assumption used within this report.

Independent Audit

Clark, Schaefer, Hackett and Company, independent certified public accountants, audited the financial statements of OP&F for the year ended December 31, 2006, and their opinion thereon is included in the Financial Section.

Notes to Basic Financial Statements

The notes to basic financial statements, which follow the basic Financial Statements, contain additional information and are an integral part of such statements.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to OP&F for its CAFR for the fiscal year ended December 31, 2005. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation and contents of this report reflects the combined efforts of OP&F's staff under the direction of the Board of Trustees and are the responsibility of OP&F's management staff. It is intended to provide complete and reliable information as a basis for making management decisions, to disclose compliance with legal provisions, and as a means of determining responsible stewardship for the assets contributed by the members and their employers.

The cooperation of OP&F's employers is vital to our success and is greatly appreciated.

Respectfully submitted,

William J. Estabrook
Executive Director

Stewart A. Smith, CPA
Chief Financial Officer

The 2006 Comprehensive Annual Financial Report

Financial Section

The Ohio Police & Fire Pension Fund

Ohio Police & Fire Pension Fund

140 East Town Street • Columbus, Ohio 43215
www.op–f.org • 800–860–9599

Independent Auditors' Report

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
www.cshco.com

Independent Auditors' Report

To the Board of Trustees
Ohio Police and Fire Pension Fund
Columbus, Ohio

We have audited the accompanying statements of plan net assets of the Ohio Police and Fire Pension Fund (the Fund) as of December 31, 2006 and 2005, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Ohio Police and Fire Pension Fund, as of December 31, 2006 and 2005, and the changes in fiduciary net assets, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described on page 12 of the notes to the basic financial statements, the Fund has implemented for the year ended December 31, 2006, Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Post-Employment Benefit Plans Other than Pension Plans*, GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment of NCGA Statement No.1*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2007 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

2525 N. Limestone Street, Suite 103, Springfield, OH 45503, 937/399–2000, FAX 937/399–5433
CINCINNATI COLUMBUS DAYTON MIDDLETOWN SPRINGFIELD

The management's discussion and analysis and required supplementary information on pages 4 through 6 and 29 through 30, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The introductory section, the schedule of administrative expenses, the statement of changes in assets and liabilities-Death Benefit Agency Fund, the schedule of investment expenses, investment section, actuarial section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of administrative expenses, the schedule of investment expenses and the statement of changes in assets and liabilities-Death Benefit Agency Fund have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
June 20, 2007

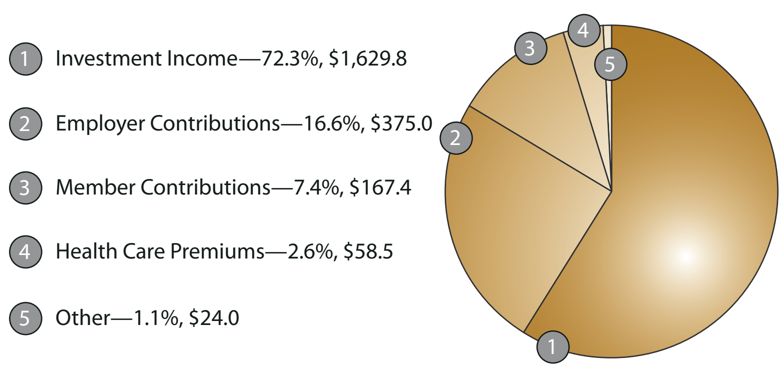
Management's Discussion and Analysis (Unaudited)

This Management Discussion and Analysis (MD&A) of the Ohio Police & Fire Pension Fund's financial performance provides a narrative overview of financial activities for the fiscal year ended December 31, 2006. The MD&A is designed to focus on the current year's activities, resulting changes, and currently known facts. We encourage you to read it in conjunction with OP&F's financial statements, notes to the financial statements, and the letter of transmittal included in the Introduction section of OP&F's CAFR.

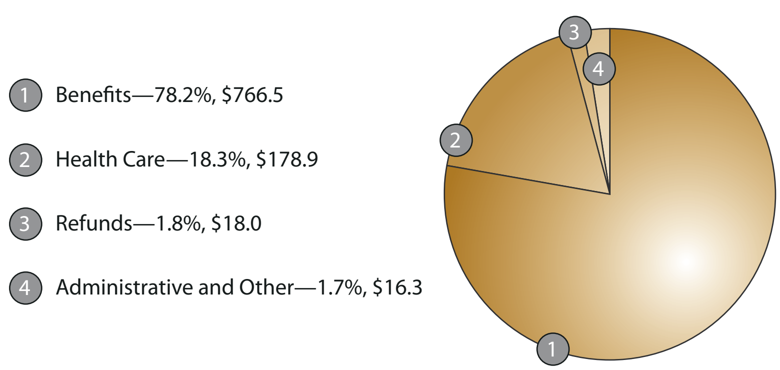
Financial Highlights

Plan additions are received primarily from employer and member pension contributions and investment income. For fiscal year 2006, these additions totaled $2,254.7 million and were $1,438.9 million in 2005, which is a 56.7 percent increase. This amount fluctuates dramatically because it includes realized and unrealized investment gains and losses based on domestic and international market performance. The employer and member contribution rates during 2006 remained unchanged from the prior year. Member contributions are 10 percent for all members, while employer contributions are 19.5 percent and 24 percent for police and fire employers, respectively.

Plan deductions are incurred primarily for the purpose for which OP&F was created, the payment of pension and survivor benefits. Included in the deductions from plan net assets for 2006 were benefits for retirement, deferred retirement option plan, disability, health care, and survivor benefits. Also included were contribution refunds, administrative and other expenses. Pension benefits are funded through a combination of member and employer contributions, and investment income. Health care expenses are funded on a pay–as–you–go basis, with limited subsidy by OP&F, through a portion of employer contributions, health care premiums, and investment income. Total plan deductions totaled $979.7 million in 2006 and were $909.3 million in 2005, which is a 7.7 percent increase over 2005. Over 97 percent of this increase is directly related to benefit payments and is directly attributed to high levels of participation in our DROP program and normal levels of new retirees added to the rolls.



2006 Plan Additions (in millions)
$2,254.7



2006 Plan Deductions (in millions)
$979.7

Overview of Financial Statements

Following the MD&A are the Statements of Fiduciary Net Assets and the Statements of Changes in Fiduciary Net Assets. OP&F's financial statements are prepared using the accrual basis of accounting and are in compliance with applicable GASB Statements.

The Statements of Fiduciary Net Assets provides a snap–shot view at year–end for the amount the plan has accumulated in assets to pay for benefits. The Statements of Changes in Fiduciary Net Assets show what has happened to the plan assets during the fiscal year. If net assets increased, then additions were greater than the deductions. If net assets decreased, then additions to the plan were less than the deductions from the plan.

In addition to the combining financial statements and accompanying notes, certain required supplementary information RSI is provided. The schedule of funding progress shows on an actuarial basis whether OP&F's ability to pay for benefits is improving or deteriorating over time. Also included in the required supplementary information is a schedule of employer contributions and notes to the required supplementary information. Both schedules provide data over the past six years. Following the RSI are schedules of administrative and investment expenses.

A condensed version of our financial information is being provided as part of this discussion.

Condensed Fiduciary Net Asset Information (in millions)

	2006	2005	2004	2006 Change Amount	2006 Change Percent	2005 Change Amount	2005 Change Percent
Cash & Short–term Investments	$ 666.6	$ 487.2	$ 506.1	$ 179.4	36.8%	$ (18.9)	–3.7%
Total Receivables	**535.7**	**385.0**	**201.9**	**150.7**	**39.1%**	**183.1**	**90.7%**
Investments, at Fair Value	13,077.7	11,825.8	11,446.5	1,251.9	10.6%	379.3	3.3%
Capital Assets, Net of Depreciation	25.9	27.3	27.3	(1.4)	–5.1%	0.0	0.0%
Other Assets	2.2	0.7	0.2	1.5	214.3%	0.5	250.0%
Total Assets	**14,308.1**	**12,726.0**	**12,182.0**	**1,582.1**	**12.4%**	**544.0**	**4.5%**
Benefits & Accounts Payable	465.9	313.6	183.1	152.3	48.6%	130.5	71.3%
Investments Payable	2,229.8	2,075.0	2,191.1	154.8	7.5%	(116.1)	–5.3%
Total Liabilities	**2,695.7**	**2,388.6**	**2,374.2**	**307.1**	**12.9%**	**14.4**	**0.6%**
NET ASSETS AVAILABLE	**$ 11,612.4**	**$ 10,337.4**	**$ 9,807.8**	**$ 1,275.0**	**12.3%**	**$ 529.6**	**5.4%**

Condensed Changes in Fiduciary Asset Information (in millions)

	2006	2005	2004	2006 Change Amount	2006 Change Percent	2005 Change Amount	2005 Change Percent
Contributions	$ 601.0	$ 581.3	$ 573.5	$ 19.7	3.4%	$ 7.8	1.4%
Net Investment Gain/(Loss)	1,629.8	847.4	1,152.4	782.4	92.3%	(305.0)	–26.5%
Other Additions	23.9	10.2	16.3	13.7	134.3%	(6.1)	–37.4%
Total Additions	**2,254.7**	**1,438.9**	**1,742.2**	**815.8**	**56.7%**	**(303.3)**	**–17.4%**
Benefits	945.4	876.7	820.8	68.7	7.8%	55.9	6.8%
Refunds	18.0	16.5	15.3	1.5	9.1%	1.2	7.8%
Administration Expenses & Other	16.3	16.1	16.1	0.2	1.2%	0.0	0.0%
Total Deductions	**979.7**	**909.3**	**852.2**	**70.4**	**7.7%**	**57.1**	**6.7%**
Net Increase/(Decrease)	**1,275.0**	**529.6**	**890.0**	**745.4**	**140.7%**	**(360.4)**	**–40.5%**
Net Assets, Beginning of Year	**10,337.4**	**9,807.8**	**8,917.8**	**529.6**	**5.4%**	**890.0**	**10.0%**
NET ASSETS, END OF YEAR	**$11,612.4**	**$10,337.4**	**$9,807.8**	**$ 1,275**	**12.3%**	**$ 529.6**	**5.4%**

Financial Analysis

Fiduciary Net Assets

Net assets available for benefits and expenses in 2006 were $11,612.4 million versus $10,337.4 million in 2005, which represents a 12.3 percent overall net increase. The overall net increase can be primarily attributed to appreciation on the fair value of investments, and a decrease in investment commitments payable at the end of the year. Please refer to the Investment Section for additional information on our investment activities in 2006. Additionally, the largest decrease in overall plan assets is directly related to the 55 percent increase in the liabilities related to the participation level in the DROP program.

Revenue Additions to Fiduciary Net Assets

Overall, contributions received by OP&F increased 3.4 percent or by $19.7 million. Pension contributions from employers and members increased $16.5 million or 3.1 percent in 2006 due to the increase in covered payroll, which is the contribution base. The active member population or contributing members also increased by 147 to 28,026 while the average annual salary remained relatively flat. As a result, member contributions increased by 3.8 percent.

Contributions paid by members and beneficiaries for their share of the health care costs increased by 5.9 percent from $55.3 million to $58.5 million in 2006. This reflects changes in the number of covered participants and increases in premiums charged to dependents.

Contributions received through the state subsidy decreased 9.1 percent or $100,000 from $1.2 million to $1.1 million due to the fact that there is a declining population of survivors receiving this state subsidized benefit.

Net investment income/appreciation increased by $782.4 million or 92.3 percent in 2006 over 2005 as the U.S. and international markets continued to find positive territory. Investment net appreciation totaled $1,381.7 million in 2006, which represented 118.7 percent of this increase and can be directly attributed to the overall 16.15 percent return on investments experienced on our assets versus the revised 9.07 percent return of 2005.

Expense Deductions from Fiduciary Net Assets

Benefit deductions for retirement, deferred retirement, disability and survivors increased $68.7 million or 7.8 percent in 2006. The majority of the increase is due to our DROP program having better than expected participation, and an increasing scale upon which contributions are allocated to the actual accounts, which allows active members to accrue pension benefits, contributions and interest. Other increases are due to the increase in the retirees and beneficiaries rolls by 202 or 0.8 percent, plus a three percent cost of living adjustment for eligible recipients, and a slight increase in member refunds.

Health care benefits costs increased in total by 9.5 percent in 2006 versus a 3.5 percent increase in 2005. Gross health care payments totaled $178.9 million in 2006 and represented nearly 18.3 percent of all plan deductions. The Board of Trustees continues to evaluate every avenue to preserve offering access to these discretionary benefits by addressing the continual rise in OP&F's overall health care costs. In 2006, there were changes in the program adopted to contain costs. Changes included a lifetime maximum of $2.5 million; lower subsidies for spouses, dependents, and a variety of other changes that were determined necessary to control costs. These benefits are not guaranteed or prepaid so cost sharing is required to offset expenses.

Refunds to members increased by 9.1 percent in 2006. This includes actual refunds of pension contributions and liabilities incurred for inactive members who are not vested and who have accumulated contributions on deposit with OP&F.

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Statement of Fiduciary Net Assets as of December 31, 2006

	Pensions	Post–employment Health care	2006 Total	Death Benefit Agency Fund
Assets				
Cash And Short–term Investments	$ 643,023,415	$ 23,539,093	$ 666,562,508	$ 420,262
Receivables				
Employers' Contributions	54,778,987	30,254,786	85,033,773	—
Members' Contributions	17,357,831	—	17,357,831	—
Accrued Investment Income	29,375,742	1,075,355	30,451,097	—
Investment Sales Proceeds	354,545,770	12,978,821	367,524,591	—
Local Funds Receivable	35,283,314	—	35,283,314	—
Total Receivables	**491,341,644**	**44,308,962**	**535,650,606**	**—**
Investments, At Fair Value				
Bonds	1,331,177,797	48,730,291	1,379,908,088	—
Mortgage & Asset Backed Securities	771,209,089	28,231,573	799,440,662	—
Stocks	5,200,953,301	190,390,772	5,391,344,073	—
Real Estate	635,548,170	23,265,448	658,813,618	—
Commercial Mortgage Funds	70,725,331	2,589,035	73,314,366	—
Private Equity	281,590,200	10,308,144	291,898,344	—
International Securities	2,549,659,698	93,335,135	2,642,994,833	—
Total Investments	**10,840,863,586**	**396,850,398**	**11,237,713,984**	**—**
Collateral On Loaned Securities	**1,775,090,844**	**64,980,571**	**1,840,071,415**	**—**
Capital Assets, net of accumulated depreciation, where applicable				
Land	3,200,000	—	3,200,000	—
Building and Improvements	17,110,916	—	17,110,916	—
Furniture and Equipment	686,027	—	686,027	—
Computer Software and Hardware	4,944,753	—	4,944,753	—
Total Capital Assets, Net	25,941,696	—	25,941,696	—
Prepaid Expenses and Other	2,180,607	—	2,180,607	—
Total Assets	**13,778,441,792**	**529,679,024**	**14,308,120,816**	**420,262**
Liabilities				
Health Care Payable	—	14,337,871	14,337,871	—
Investment Commitments Payable	375,953,081	13,762,475	389,715,556	—
Accrued Administrative Expenses	8,877,242	—	8,877,242	—
Other Liabilities	15,927,891	—	15,927,891	—
Due to State of Ohio	—	—	—	420,262
DROP Liabilities	426,802,784	—	426,802,784	—
Obligations Under Securities Lending	1,775,090,844	64,980,571	1,840,071,415	—
Total Liabilities	**2,602,651,842**	**93,080,917**	**2,695,732,759**	**420,262**
NET ASSETS HELD IN TRUST FOR PENSION AND POST—EMPLOYMENT HEALTH CARE BENEFITS	**$ 11,175,789,950**	**$436,598,107**	**$ 11,612,388,057**	**—**

(An unaudited schedule of funding progress is presented on page 29.) See Notes to Basic Financial Statements.

Statement of Fiduciary Net Assets as of December 31, 2005

	Pensions (as restated)	Post–employment Health care (as restated)	2005 Total (as restated)	Death Benefit Agency Fund
Assets				
Cash and Short–term Investments	$472,055,597	$15,108,131	$487,163,728	$511,328
Receivables				
Employers' Contributions	58,178,706	31,352,566	89,531,272	—
Members' Contributions	15,394,392	—	15,394,392	—
Accrued Investment Income	30,962,492	990,954	31,953,446	—
Investment Sales Proceeds	205,366,460	6,572,750	211,939,210	—
Local Funds Receivable	36,196,034	—	36,196,034	—
Total Receivables	**346,098,084**	**38,916,270**	**385,014,354**	
Investments, at fair value				
Bonds	1,247,743,720	39,934,015	1,287,677,735	—
Mortgage & Asset Backed Securities	711,852,797	22,782,836	734,635,633	—
Stocks	4,772,291,466	152,737,102	4,925,028,568	—
Real Estate	587,823,805	18,813,290	606,637,095	—
Commercial Mortgage Funds	77,911,233	2,493,548	80,404,781	—
Private Equity	223,042,753	7,138,479	230,181,232	—
International Securities	2,256,008,674	72,203,516	2,328,212,190	—
Total Investments	**9,876,674,448**	**316,102,786**	**10,192,777,234**	
Collateral on Loaned Securities	**1,582,403,009**	**50,644,780**	**1,633,047,789**	**—**
Capital Assets, net of accumulated depreciation, where applicable				
Land	3,200,000	—	3,200,000	—
Building and Improvements	17,635,240	—	17,635,240	—
Furniture and Equipment	833,036	—	833,036	—
Computer Software and Hardware	5,681,865	—	5,681,865	—
Total Capital Assets, Net	27,350,141	—	27,350,141	—
Prepaid Expenses and Other	693,990	—	693,990	—
Total Assets	**12,305,275,269**	**420,771,967**	**12,726,047,236**	**511,328**
Liabilities				
Health Care Payable	—	13,381,824	13,381,824	—
Investment Commitments Payable	428,224,745	13,705,325	441,930,070	—
Accrued Administrative Expenses	9,690,898	—	9,690,898	—
Other Liabilities	15,442,171	—	15,442,171	—
Due to State of Ohio	—	—	—	511,328
DROP Liabilities	275,110,420	—	275,110,420	—
Obligations Under Securities Lending	1,582,403,009	50,644,780	1,633,047,789	—
Total Liabilities	**2,310,871,243**	**77,731,929**	**2,388,603,172**	**511,328**
NET ASSETS HELD IN TRUST FOR PENSION AND POST—EMPLOYMENT HEALTH CARE BENEFITS	**$ 9,994,404,026**	**$ 343,040,038**	**$ 10,337,444,064**	**—**

Statement of Changes in Fiduciary Net Assets Year Ended December 31, 2006

	Pensions	Post–employment Health care	2006 Total
Additions			
From Contributions			
Employers'	$234,990,209	$138,940,502	$373,930,711
Members'	167,417,967	—	167,417,967
State of Ohio–Subsidies	1,077,865	—	1,077,865
Health Care	—	58,532,848	58,532,848
Total Contributions	**403,486,041**	**197,473,350**	**600,959,391**
From Investment Income			
Net Appreciation (Depreciation)			
Value of Investments	1,328,483,603	53,185,909	1,381,669,512
Bond Interest	103,012,536	4,124,112	107,136,648
Dividends	78,183,184	3,130,068	81,313,252
Real Estate Operating Income, net	50,820,255	2,034,592	52,854,847
Foreign Securities	1,862,955	74,584	1,937,539
Other Investment Income	26,718,841	1,069,690	27,788,531
Less Investment Expenses	(25,997,784)	(1,040,823)	(27,038,607)
Net Investment Income	**1,563,083,590**	**62,578,132**	**1,625,661,722**
From Securities Lending Activities			
Securities Lending Income	96,659,953	3,869,786	100,529,739
Securities Lending Expense, Borrower Rebates	(91,582,498)	(3,666,510)	(95,249,008)
Securities Lending Expense, Management Fees	(1,139,130)	(45,605)	(1,184,735)
Total Securities Lending Expense	**(92,721,628)**	**(3,712,115)**	**(96,433,743)**
Net Income from Securities Lending	3,938,325	157,671	4,095,996
Interest on Local Funds Receivable	1,516,800	—	1,516,800
Other Income	7,826,948	14,648,983	22,475,931
Total Additions	**1,979,851,704**	**274,858,136**	**2,254,709,840**
Deductions			
Retirement Benefits	377,003,190	—	377,003,190
DROP Benefits	147,653,184	—	147,653,184
Disability Benefits	183,496,465	—	183,496,465
Health Care Benefits	—	178,906,570	178,906,570
Survivor Benefits	58,380,398	—	58,380,398
Contribution Refunds	17,983,217	—	17,983,217
Administrative Expenses	14,368,796	2,393,497	16,762,293
Other Expenses	(419,470)	—	(419,470)
Total Deductions	**798,465,780**	**181,300,067**	**979,765,847**
Net Increase	1,181,385,924	93,558,069	1,274,943,993
Net assets held in trust for pension and post–employment health care benefits			
Balance, Beginning of year	**9,994,404,026**	**343,040,038**	**10,337,444,064**
BALANCE, END OF YEAR	**$11,175,789,950**	**$436,598,107**	**$11,612,388,057**

(An unaudited schedule of funding progress is presented on page 29.) See Notes to Basic Financial Statements.

Statement of Changes in Fiduciary Net Assets Year Ended December 31, 2005

	Pensions	Post–employment Health care	2005 Total
Additions			
From Contributions			
Employers'	$228,841,958	$128,183,051	$357,025,009
Members'	167,822,150	—	167,822,150
State of Ohio–Subsidies	1,185,989	—	1,185,989
Health Care	—	55,271,881	55,271,881
Total Contributions	**397,850,097**	**183,454,932**	**581,305,029**
From Investment Income			
Net Appreciation (Depreciation)			
Value of Investments	610,948,585	20,865,750	631,814,335
Bond Interest	88,987,436	3,039,191	92,026,627
Dividends	68,115,416	2,326,348	70,441,764
Real Estate Operating Income, net	51,272,918	1,751,126	53,024,044
Foreign Securities	1,115,356	38,093	1,153,449
Other Investment Income	19,889,961	679,303	20,569,264
Less Investment Expenses	(23,948,169)	(817,902)	(24,766,071)
Net Investment Income	**816,381,503**	**27,881,909**	**844,263,412**
From Securities Lending Activities			
Securities Lending Income	59,574,977	2,034,666	61,609,643
Securities Lending Expense, Borrower Rebates	(55,642,457)	(1,900,359)	(57,542,816)
Securities Lending Expense, Management Fees	(939,332)	(32,081)	(971,413)
Total Securities Lending Expense	**(56,581,789)**	**(1,932,440)**	**(58,514,229)**
Net Income from Securities Lending	2,993,188	102,226	3,095,414
Interest on Local Funds Receivable	1,549,039	—	1,549,039
Other Income	4,802,824	3,873,264	8,676,088
Total Additions	**1,223,576,651**	**215,312,331**	**1,438,888,982**
Deductions			
Retirement Benefits	367,372,848	—	367,372,848
DROP Benefits	117,676,051	—	117,676,051
Disability Benefits	172,541,739	—	172,541,739
Health Care Benefits	—	163,311,330	163,311,330
Survivor Benefits	55,795,128	—	55,795,128
Contribution Refunds	16,470,725	—	16,470,725
Administrative Expenses	13,394,474	2,535,171	15,929,645
Other Expenses	157,540	—	157,540
Total Deductions	**743,408,505**	**165,846,501**	**909,255,006**
Net Increase	480,168,146	49,465,830	529,633,976
Net assets held in trust for pension and post–employment health care benefits			
Balance, Beginning of year	**9,514,235,880**	**293,574,208**	**9,807,810,088**
BALANCE, END OF YEAR	**$9,994,404,026**	**$343,040,038**	**$10,337,444,064**

Notes to Basic Financial Statements December 31, 2006 and 2005

1—Summary of Significant Accounting Policies

The following are the significant accounting policies followed by the Ohio Police & Fire Pension Fund (OP&F).

Basis of Accounting

OP&F's financial statements have been prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred. Contributions are earned based on statutory requirements and formal commitments under the Ohio Revised Code (ORC) Section 742 specific to OP&F.

New Accounting Pronouncements

During the year ended December 31, 2006, OP&F adopted the provisions of GASB Statement No. 43 Financial Reporting for Post–Employment Benefit Plans Other Than Pension Plans, GASB Statement No. 45 Accounting and Financial Reporting by Employers for Post–Employment Benefits Other Than Pensions, GASB Statement No. 44 Economic Condition Reporting: The Statistical Section–and amendment of NCGA Statement No. 1.

During the year ending December 31, 2005, OP&F adopted the provisions of Governmental Accounting Standards Board Statement No. 46 Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34 and Statement No. 47 Accounting for Termination Benefits. Implementation of these new accounting pronouncements has no effect on these financial statements.

Management Use of Estimates

The preparation of the financial statements requires management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to estimates and assumptions include the market value of certain investments, carrying amount of capital assets, and assets and obligations related to employee and member benefits. Actual results could differ from those estimates.

Reclassifications

Any reclassifications are also done on a comparative basis for each year displayed.

OP&F did reclassify the Post–employment health care allocation among the Statement of Fiduciary Net Assets. This reclassification was to only allocate appropriate cash and investment accounts to Post–employment health care assets and liabilities.

Investments

Investment purchases and sales are recorded on a trade date basis. Dividend income is recognized on the ex–dividend date, while interest and rental income are recognized when earned.

Investments are reported at fair value. Short–term investments are valued at amortized cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal payments discounted at prevailing interest rates for similar instruments. The fair value of real estate is based on independent appraisals and internal valuations. Investments that do not have an established market are reported at estimated fair value. Private equity limited partnership interests are based on values established by the partnerships' valuation committees.

Net appreciation is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less the cost of investments purchased, plus proceeds from sales of investments at fair value. Investment expense consists of administrative expenses directly related to the OP&F's investment operations and a proportional amount of all other administrative expenses allocated based on the ratio of OP&F's investment staff to total OP&F staff.

Federal Income Tax Status

OP&F was determined to be a trust under section 401(a) of the Internal Revenue Code that is exempt from Federal income taxes.

Administrative Costs

The costs of administering the plan is financed by investment income.

	January 1, 2006	Additions	Disposals	December 31, 2006
Non–depreciable Capital Assets				
Land	$ 3,200,000	—	—	$ 3,200,000
Depreciable Capital Assets				
Building & Improvements	21,187,763	$ 10,432	—	21,198,195
Furniture & Equipment	4,224,541	152,556	—	4,377,097
Computer Software & Hardware	8,424,247	480,518	—	8,904,765
Depreciable Capital Assets	**33,836,551**	**643,506**	**—**	**34,480,057**
Accumulated Depreciation				
Building & Improvements	(3,552,522)	(534,757)	—	(4,087,279)
Furniture & Equipment	(3,391,505)	(299,565)	—	(3,691,070)
Computer Software & Hardware	(2,742,383)	(1,217,629)	—	(3,960,012)
Total Accumulated Depreciation	**(9,686,410)**	**(2,051,951)**	**—**	**(11,738,361)**
TOTAL DEPRECIABLE CAPITAL ASSETS, NET	**$24,150,141**	**$ (1,408,445)**	**—**	**$ 22,741,696**

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight–line method over the estimated useful lives of the related assets. The range of estimated useful lives is as follows:

Buildings and improvements:	40 years
Furniture and equipment:	3 to 10 years
Computer software and hardware:	2 to 10 years

Contributions and Benefits

Employer and member contributions are recognized when due or in the period the related member salaries are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

2—Description of the System

Organization

OP&F is a cost–sharing, multiple–employer public employee retirement system established by Chapter 742 of the Ohio Revised Code (ORC) in 1967 to consolidate the various individual local police and firefighter's relief and pension funds into one statewide plan. OP&F is administered by a nine member Board of Trustees, consisting of four active members, two retired members, and three statutory members, which have changed with the enactment of Senate Bill 133 in September 2004. Each statutory member—one appointed by the Governor, one by the Treasurer of State, and one appointed jointly by the Senate President and Speaker of the House—must have professional investment expertise. OP&F administers pension, disability and health care benefits to qualified participants. In addition, OP&F administers survivor benefits, death benefits and sponsors a health care program for qualified retirees, surviving spouses, children and dependent parents. OP&F is a separate financial reporting entity in accordance with criteria established by Governmental Accounting Standards Board Statement No. 14. Because OP&F is a legally separate trust from the state of Ohio, a voting majority of the governing board is not appointed by the State and it is fiscally independent of other state and local governments.

Plan Membership

Employer and member data as of January 1, 2006 and 2005, based on the most recent actuarial valuation, is as follows:

	2006			2005		
Employee Members	**Police**	**Fire**	**Total**	**Police**	**Fire**	**Total**
Retirees and Beneficiaries						
Currently receiving benefits	13,922	10,537	24,459	13,812	10,528	24,340
Terminated employees entitled to benefits but not yet receiving them	208	99	307	143	81	224
TOTAL BENEFIT MEMBERS	**14,130**	**10,636**	**24,766**	**13,955**	**10,609**	**24,564**
Current Members						
Vested	6,031	5,308	11,339	5,694	5,025	10,719
Nonvested	9,273	7,414	16,687	9,576	7,584	17,160
Total Current Members	15,304	12,722	28,026	15,270	12,609	27,879
TOTAL EMPLOYEE MEMBERS	**29,434**	**23,358**	**52,792**	**29,225**	**23,218**	**52,443**
Employer Members						
Municipalities	252	225	477	251	224	475
Townships	—	119	119	—	113	113
Villages	284	32	316	286	31	317
TOTAL EMPLOYER MEMBERS	**536**	**376**	**912**	**537**	**368**	**905**

Benefits

Plan benefits are established under ORC Chapter 742. Members are eligible for normal retirement benefits at age 48 with 25 years of service credit. The normal retirement benefit is equal to 2.5 percent of annual earnings for each of the first 20 years of service, 2.0 percent for each of the next five years of service and 1.5 percent for each year of service thereafter. However, this normal retirement benefit is not to exceed 72 percent of the member's "average annual salary" or "recalculated average salary" as the case may be, for the three 12/consecutive months during which the total "salary" was greatest. With 15 years of service credit, retirement with reduced benefits is available upon reaching age 48, and 25 years from the date the member became a qualified employee in a police or fire department, whichever date is later. With 15 years of service credit, retirement with reduced benefits is available upon reaching age 62.

In addition to retirement benefits, OP&F also provides disability, survivor, and death benefits. Disability benefits are available to all members and vary by length of service and type of disability. Statutory survivor benefits are specified dollar amounts paid to eligible survivors, children and dependent parents upon the death of an active or retired member. A death benefit of $1,000 is payable to the surviving spouse, designated beneficiary, or estate of a retired member.

OP&F also administers the Ohio Public Safety Officers Death Benefit Agency Fund, which provides special benefits to eligible survivors of public safety officers who are killed in the line of duty or who die from injuries or disease incurred in the performance of official duties. These eligible survivors are entitled to receive the member's full monthly salary, which will be reduced at the member's retirement eligibility date. The dependent's benefit will be terminated at the dependent's attainment of age 18 (or 23 if attending school). The spouse's benefit is a lifetime benefit. These death benefit payments are in addition to any optional payment plan benefits elected by the member. Funding for Death Fund Agency Benefits is received from the State of Ohio.

Deferred Retirement Option Plan (DROP)

Effective January 2003, DROP is an optional benefit that allows eligible police officers and firefighters to accumulate a lump sum of money for retirement, subject to the member meeting certain criteria. OP&F is proud to offer this benefit to its membership, which has been the most requested addition to OP&F's benefit offerings in many years.

OP&F members who are eligible for a normal service retirement (48 years of age or older with 25 years or more of service credit) can enter the DROP program by delaying retirement and continuing to work as police officers or firefighters. Upon the DROP effective date, a member's pension is calculated as if that were the date of retirement. While the member continues to work and draw their normal salary, the amount they would have received in retirement benefits, plus annual three percent cost–of–living adjustments (COLAs), accumulate tax–deferred at OP&F on their behalf. As the DROP participant continues to work, a portion of their OP&F member contribution, plus five percent interest, also accumulates into DROP.

When members end their active employment and retire within the required period, which terminates their DROP participation, they begin to receive their monthly pension that was determined on their DROP effective date (plus COLAs) and will be eligible for health care benefits based on the eligibility guidelines in place at the time of their retirement. Members who have terminated employment can begin to withdraw funds from their DROP accrual in a lump–sum payment or installments, as long as three full years have elapsed from their DROP effective date. To receive the benefit of DROP, without penalty, members must work at least three years in an OP&F–covered position and they must terminate employment and retire within eight years.

Health Care Plan Description

OP&F sponsors a comprehensive health care program for eligible benefit recipients and their eligible dependents. This program is not guaranteed and the benefits are subject to change at any time upon action of the Board of Trustees. The program includes prescription drugs and reimbursement of Medicare Part B premiums. Benefit recipients pay a portion of the health care cost through a monthly contribution.

Under Ohio law, medical costs paid from the funds of the plan are included in the employer contribution rates, which are currently 19.5 percent and 24 percent of salaries for police and fire employers, respectively. The Board of Trustees allocated employer contributions equal to 7.75 percent of annual covered payroll to the Health Care Stabilization Fund, which was part of the Pension Reserve Fund for 2006 and consistent with prior periods.

OP&F maintains funds for health care in two separate accounts. One for health care benefits and one for Medicare Part B reimbursements. An Internal Revenue Service (IRS) Code Section 401(h) is maintained for Medicare Part B and a separate trust accrual account is maintained for health benefits under an IRS Code Section 115 trust.

Funded Status and Funding Progress—OPEB Plans

In April 2004, the GASB issued Statement No. 43, Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans. This Statement establishes uniform financial reporting standards for post employment benefits other than pension plans and supersedes the interim guidance included in Statement No. 26, Financial Reporting for Post Employment Health Care Plans Administered by Defined Benefit Plans. The disclosures below are required by this Standard.

The funded status of the System's retiree health care plan as of the most recent actuarial valuation date is as follows:

Schedule of Funding Progress (in thousands)
Health Care Trust

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2006	$343,040	$3,334,861	$2,991,821	10.3%	$1,756,230	170.4 %

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented in the RSI section following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contributions (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

As disclosed previously, health care benefits are not guaranteed and are subject to change at any time. The health care valuation and projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short–term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long–term perspective of the calculations.

Defined Benefit Plan–Pensions

Valuation date	January 1, 2006
Actuarial cost method	Entry Age
Amortization method	Level percent of Payroll, open
Remaining amortization period	30 years (Infinite, on an actual basis)
Asset valuation method	5–year adjusted market value with a corridor of 20 percent of the market value

Actuarial assumptions

Investment rate of return	8.25%
Projected salary increases	5.00–11.00%
Cost–of–living adjustments	3.00% simple
Payroll Increases	4.00%
Inflation	3.00%

Retiree Health Care Plan

Valuation date	January 1, 2006
Actuarial cost method	Entry Age
Amortization method	Level percent of Payroll, Open
Remaining amortization period	30 years
Asset valuation method	Fair Market Value

Actuarial assumptions

Investment rate of return (Discount Rate)	6.00%
Projected salary increases	5.00–11.00%
Payroll Increases	4.00%
Inflation	3.00%

Other Trend Rates

Health Care Cost Trends	Initial Rate	Ultimate Rate	Ultimate Year
Pre–Medicare	12.00%	5.00%	2018
Post–Medicare	8.00%	5.00%	2018
Prescription Drug	14.00%	5.00%	2018
Medicare Part B	8.00%	5.00%	2018

OP&F's retiree health care plan is partially funded. The discount rate is a blended rate based on the plan and employer rates of return, using the plan rate times the percentage of the ARC contributed and the employer rate times the percentage not contributed.

Refunds

Upon termination of employment, members may withdraw accumulated contributions to OP&F. Acceptance of a refund cancels the member's rights and benefits in OP&F. Employer contributions to OP&F are not refundable.

3—Contributions and Reserves

Contributions

The ORC requires contributions by active employers and their members. The contribution requirement was not actuarially determined, but rather established by law in the ORC. Contribution rates are, however, subject to annual review by the Ohio Retirement Study Council (ORSC). Additionally, an actuary is used to determine the actuarial implications of the requirement. The adequacy of contribution rates is determined annually using the entry age normal with frozen initial liability actuarial cost method.

Rates established by the ORC at December 31, 2006 and 2005:

(% of active member payroll)	Police	Fire
Employer	19.50	24.00
Member	10.00	10.00
TOTAL STATUTORY RATE	**29.50**	**34.00**

Senate Bill 82 established the length of the amortization period for unfunded pension liability as the primary measure of OP&F's financial status, with a period of 30 years or less being considered satisfactory. This 30–year target was to be attained by December 31, 2006 and maintained thereafter. As of January 1, 2006, the amortization period under the current statutory rates is infinite. OP&F has submitted an approved funding plan to the Ohio Retirement Study Council (ORSC) that, with legislative changes, would allow OP&F to attain the 30–year target.

Combined employer and member contributions as a percentage of the total active member payroll required for 2006 and 2005 represented 29.50 percent for police and 34.00 percent for firefighters. Employer and member contributions were $183,583,154 and $91,335,706 respectively, for police and $190,347,557 and $76,082,261, respectively, for firefighters for the year ended December 31, 2006. Employer and member contributions were approximately $173,776,807 and $91,080,197, respectively, for police and $183,248,202 and $76,741,953, respectively, for firefighters for the year ended December 31, 2005.

In accordance with the ORC, the State of Ohio is required to contribute additional amounts to finance the cost of certain state–legislated benefit improvements. The total amount contributed by the State of Ohio was $1,077,865 and $1,185,989 for the years ending December 31, 2006 and 2005, respectively.

Local Funds Receivable

Local governments are required by state statute to pay the unfunded portion of the actuarially determined liability of the local police and firefighter's relief and pension funds that were assumed by OP&F in 1967. The ORC designates this obligation of the local governments the "Employers' Accrued Liability." Interest on the outstanding balance is being accrued at the rate of 4.25 percent, compounded semiannually. Local governments began repayment in 1969 and payments are required to be made until 2035. Between 1969 and 1973, payments of principal and interest were received at incremental semiannual rates ranging from one percent to five percent of the original receivable balance. Between 1973 and 2035, semiannual payments of principal and interest are required to be made by the local governments at a rate of 2.5 percent of the original receivable balance. The underpaid balance due at December 31, 2006 and 2005, respectively, includes $103,029 and $104,638 due from local governments, which had previously underpaid their semiannual payment and from local governments that joined OP&F subsequent to 1967 according to a 20–year payment plan.

The following is a summary of the amounts due on the local funds receivable:

Year ending December 2007	$2,183,799
Year ending December 2008	2,172,825
Year ending December 2009	2,153,597
Year ending December 2010	2,153,597
Year ending December 2011	2,153,597
Thereafter	49,967,363
Total projected payments	60,784,778
Less interest portion	25,501,464
BALANCE AT DECEMBER 31, 2006	**$35,283,314**

Reserves

As required by the ORC, the following accounts have been established for the reserves held for current and future benefits and are separated between police and fire:

The Police Officers' and Firefighters' Contribution Fund accumulates the contributions deducted from the salaries of members. Upon retirement, a member's accumulated contributions are transferred to the Police Officers' or Firefighters' Pension Reserve Fund.

The Police Officers' and Firefighters' Employers' Pension Contribution Fund is the depository for employer contributions. Based on actuarial valuations, amounts are transferred from this account to the Police Officers' and Firefighters' Pension Reserve Fund.

The Police Officers' and Firefighters' Pension Reserve Fund is the accounts from which all retirement, disability, health care and survivor benefits are paid. Included in this Fund is the Health Care Stabilization Fund from which payments for the health care benefits are made. Amounts are transferred into the Pension Reserve Fund from the Contribution Fund and the Guarantee Fund.

The Guarantee Fund records all investment earnings of OP&F. In addition, contributions from the State of Ohio, exclusive of death benefit contributions, are recorded in this fund. Annually, investment earnings are transferred to the Pension Reserve Funds and the Expense Fund.

The Expense Fund is used to record all expenses for the administration and management of OP&F. Annually funds are transferred from the Guarantee Fund to cover expenses incurred.

Net assets available for benefits for the various funds were as follows:

	2006	2005
Members' Contribution	$ 1,731,268,192	$ 1,642,677,095
Employers' Contribution	3,654,791,865	2,686,845,969
Pension Reserve	6,226,328,000	6,007,921,000
TOTAL	**$ 11,612,388,057**	**$ 10,337,444,064**

4—Cash and Investments

Cash and Investments

The Governmental Accounting Standards Board (GASB) issued Statement No. 40: Deposit and Investment Risk Disclosures, which revised the necessary disclosures that address risks related to deposits and investments and amended Statement No. 3: Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements. Statement No. 40 involves required disclosures about:

- Custodial credit risk
- Credit risk
- Interest rate risk
- Concentration of credit risk, and
- Foreign currency risk

Additional disclosures are required regarding investment policies related to disclosed risks, and for investments with fair values that are highly sensitive to interest rate changes. OP&F elected to adopt Statement No. 40 effective as of January 1, 2004.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a system will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the failure of the counterparty to a transaction, OP&F will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

In accordance with ORC 135.18, the Treasurer of State of Ohio, the statutory custodian for OP&F, requires that the amount in any demand deposit account not covered by federal deposit insurance be collateralized with securities permitted under ORC 135.18 at 105 percent of the value of the cash. Collateral is held in the Treasurer of State's name by a third party trustee for the benefit of OP&F. All of OP&F's depository–eligible securities are held in the custodial bank or its agent's nominee, for the benefit of OP&F. Any physical securities are held in the vaults of the custodial bank or its agent. The custodial bank provides book entry accounting for OP&F's real estate and private equity assets. The custody agreement between the custodial bank and the Treasurer of State restricts the right of the custodial bank or its agents from putting any right, charge, security interest, lien or claim of any kind on the securities they hold. The cash held in foreign local banks for immediate settlement of pending trade transactions is not collateralized.

Investments

Section 742.11 of the Ohio Revised Code grants the Board of Trustees full power to invest the assets of OP&F. This statute requires that investments be made with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like nature and with like aims.

A summary of short–term securities and investments at fair value is as follows:

Category	2006	2005
Commercial Paper*	$594,596,041	$425,086,906
U.S. Government Bonds	596,166,698	574,310,651
Corporate Bonds And Obligations	783,741,390	709,545,103
Mortgage & Asset Backed Obligations	799,440,662	734,635,633
Municipal Bonds	—	3,821,981
Domestic Stocks	2,209,412,851	1,967,743,992
Domestic Pooled Stocks	3,181,931,222	2,957,284,576
International Securities	2,642,994,833	2,328,212,190
Real Estate	658,813,618	606,637,095
Commercial Mortgage Funds	73,314,366	80,404,781
Private Equity	291,898,344	230,181,232
GRAND TOTAL	**$11,832,310,025**	**$10,617,864,140**

* Commercial paper is included in cash and short–term investments on the Combining Statement of Fiduciary Net Assets.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with Section. 742.11 of the Ohio Revised Code: "The Board and other Fiduciaries shall discharge their duties with respect to OP&F solely in the interest of the participants and beneficiaries." These duties shall be carried out " with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and like aims."

Core Fixed income: OP&F's three core fixed income portfolios, all managed externally, contain government, mortgage and asset–backed securities and corporate bonds. These external managers invest in securities based on guidelines provided by the OP&F Board of Trustees. It is the policy of OP&F that securities in the core fixed income portfolio shall be rated BBB– or better by two standard rating services at the time of purchase. OP&F allows some of its investment managers to purchase securities that are "not rated" as long as they deem these securities to be at least equivalent to the minimum ratings at the time of purchase.

- Government instruments include those issued by the U.S. Treasury as well as fixed income instruments, other than mortgage–backed securities, of an agency or instrumentality of the United States government.
- Mortgage–backed instruments include collateralized mortgage obligations and real estate mortgage investment conduits (REMIC's), whose payment of principal and interest is insured by the full faith and credit of the United States government, or an agency or instrumentality thereof. Also included in this category are GNMA project loans, pools and participation certificates, FNMA and FHLMC.
- Corporate bonds consist of debt instruments issued by domestic corporations or U.S. dollar–denominated debt issued by foreign entities and managed by a U.S. based investment manager.

High Yield Fixed Income

OP&F has three high yield fixed income portfolios, all managed externally. The high yield bond asset class consists of the portion of the U.S. corporate bond market that is rated below BBB– by S&P or below Baa3 by Moody's. Accordingly, credit risks associated with these bonds are greater than with core fixed income bonds. OP&F's policy is to invest in high yield bonds issued by U.S. corporations with a minimum credit rating of CCC or equivalent. OP&F allows some of its investment managers to purchase securities that are "not rated" as long as they deem these securities to be at least equivalent to the minimum ratings at the time of purchase. It is possible after purchase that the security is downgraded. In the event of an investment guideline violation or in the event of a security downgrade, such that the ratings (Moody's, S&P, or Fitch Investor's Service) are below the allowable minimum security quality, the Manager will inform OP&F in writing within five business days of such violation. Such notice will include the action the Manager intends to take with regard to the violation and over what time period that action will be taken. Both the method and timing of the violation resolution must be agreeable to OP&F.

The following tables show ratings by asset class in OP&F's fixed income portfolio as of December 31, 2006 and 2005:

Ratings by Asset Class—2006

Moody's / S&P Ratings	A3/A– and Above	Baa3/BBB– to A3/A–	B3/B– to– Baa3/BBB–	C/C– to B3/B	Full Faith & Credit	Not Rated	Grand Total
Corporate Bond Obligations	$179,919,594	$73,987,731	$458,152,418	$69,519,256	—	$2,162,391	$783,741,390
Mortgage and Asset—Backed Securities	740,441,716	—	—	—	$58,998,946	—	799,440,662
U.S. Government Agencies	37,711,797	—	—	—	—	—	37,711,797
U.S. Government Treasury STRIPS	—	—	—	—	62,308,587	—	62,308,587
U.S. Government Treasury Notes	—	—	—	—	496,146,314	—	496,146,314
GRAND TOTAL	**$958,073,107**	**$73,987,731**	**$458,152,418**	**$69,519,256**	**$617,453,847**	**$2,162,391**	**$2,179,348,750**

Ratings by Asset Class—2005

Moody's / S&P Ratings	A3/A– and Above	Baa3/BBB– to A3/A–	B3/B– to– Baa3/BBB–	C/C– to B3/B	Full Faith & Credit	Not Rated	Grand Total
Corporate Bond Obligations	$ 187,593,944	$67,067,174	$416,151,049	$35,814,939	—	$2,917,997	$709,545,103
Mortgage and Asset—Backed Securities	245,046,115	—	—	—	$489,589,518	—	734,635,633
Municipal Bonds	3,821,980	—	—	—	—	—	3,821,980
U.S. Government Agencies	36,382,608	—	—	—	—	—	36,382,608
U.S. Government Treasury STRIPS	—	—	—	—	29,429,504	—	29,429,504
U.S. Government Treasury Notes	—	—	—	—	508,498,540	—	508,498,540
GRAND TOTAL	**$ 472,844,647**	**$ 67,067,174**	**$416,151,049**	**$ 35,814,939**	**$1,027,517,562**	**$2,917,997**	**$2,022,313,368**

Short–Term Investments

The short–term investment portfolio consists of commercial paper. At the time of purchase, OP&F's policy is that the commercial paper must be rated within the two highest classifications established by two standard rating services. However, it is possible that after the purchase the ratings could change. The following table lists the ratings as of December 31, 2006 and 2005:

S&P/Moody's Rating	Fair value 2006	% 2006	Fair Value 2005	% 2005
A–1/P–1	$ 145,414,922	24.46	$ 62,209,119	14.63
A–1/P–2	81,203,046	13.66	92,323,992	21.72
A–1+/P–1	33,353,050	5.61	—	—
A–2/P–1	34,572,413	5.81	24,939,445	5.87
A–2/P–2	300,052,610	50.46	245,614,350	57.78
GRAND TOTAL	**$ 594,596,041**	**100.00**	**$ 425,086,906**	**100.00**

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a fixed income investment. OP&F primarily uses the measurement of effective duration to mitigate the interest rate risk of the core fixed income portfolio. Each investment manager is required to monitor and report the effective duration on a monthly basis. The effective duration of the portfolio is required to be within +/– a certain percentage of the benchmark's duration. The benchmark for part of the fixed income portfolio, the Lehman Aggregate Index, had a duration of a 4.46 years and a 4.57 years modified adjusted duration as of December 31, 2006 and 2005, respectively.

Duration is a measure of a fixed income security's cash flows using present values, weighted for cash flows as a percentage of the investment's full price. The duration measurement used is "effective duration" and is provided for each Core fixed income portfolio and for the composite of all portfolios. All Core fixed income managers are given a range of permissible durations around the duration of their benchmark index. Since portfolio level duration is the best measure of interest rate risk, OP&F does not require our managers to measure or report on the duration of each security sector. OP&F does not measure the duration of our high yield portfolios because interest rate risk is a very small part of the total risk of high yield securities. The major risks for high yield are credit risk and interest rate spread risk. The following table lists the effective duration for OP&F's fixed income portfolio as of December 31, 2006 and 2005:

Investment Type	Fair Value 2006	Effective Duration 2006	Fair Value 2005	Effective Duration 2005
U.S. Government Obligations	$ 496,146,314	4.03	$ 508,498,539	8.49
U.S. Government STRIPS	62,308,587	7.55	29,429,504	7.91
U.S. Government Agencies	37,711,797	3.64	36,382,608	3.86
Mortgage and Asset–Backed Securities	799,440,662	3.64	734,635,633	4.56
Corporate Bonds Obligations	260,156,708	4.51	262,577,899	3.37
Municipal Bonds	—	—	3,821,980	2.61
TOTAL PORTFOLIO EFFECTIVE DURATION	**$ 1,655,764,068**	**4.17**	**$ 1,575,346,163**	**5.32**

Collateralized Mortgage Obligations

In general, mortgage–backed securities entitle their holders to receive both principal and interest payments from the payments made by the borrowers of the underlying mortgages over the lives of those loans. The life of the mortgage that underlies a mortgage–backed security can be shortened by several economic events, including borrower refinancing. When interest rates fall and remain very low, a growing number of borrowers will refinance their existing loans causing mortgaged–backed security holders to be repaid more quickly than anticipated. This early repayment is a form of market risk assumed by OP&F and other owners of mortgaged–backed securities.

To the contrary, when interest rates begin to rise, the refinancing of existing mortgages begins to slow. If the rates remain high for long periods of time, fewer borrowers refinance their mortgages. This causes mortgage–backed security holders to be repaid over longer periods of time. This prolonged repayment is known as extension risk and is another form of market risk assumed by OP&F and other owners of mortgaged–backed securities.

These securities are based on cash flows from interest payments on underlying loans. Therefore, they are sensitive to prepayments by the debtor, which may result from a decline in interest rates.

Variable Rate Securities

OP&F's core fixed income and high yield managers are permitted to hold variable–rate coupons whose rates may vary directly or inversely with changes in a related interest rate. As of December 31, 2006 and 2005, OP&F did not hold any security with a variable–rate coupon that had a multiplier greater than one or any security with an inverse variable rate.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. OP&F does not permit more than 10 percent of the core fixed income portfolio to be invested in the securities of any one issuer, and no more than five percent in any one issue on a dollar duration basis, with the exception of United States Government or Agency securities. For the high yield portfolio, no more than 10 percent of the entire portfolio at market shall be invested in securities of a single issue or issuer, unless otherwise approved by the Board of Trustees. At December 31, 2006 and 2005, OP&F did not hold investments in any one issuer that represented five percent or more of the plan net assets.

Securities Lending

OP&F participates in domestic and international securities lending programs, as authorized by the Board of Trustees. Securities are loaned to investment broker/dealers (borrower). Securities loaned are collateralized by the borrower at 102 percent of the domestic and 105 percent of the international loaned securities' fair value. OP&F has minimized its exposure to credit risk due to borrower default by having the lending agent bank determine daily that required collateral meets the specified collateral requirements. There are no restrictions on the amount of the securities that can be loaned. Contracts with lending agents require them to indemnify OP&F if the borrowers fail to return the securities or fail to pay OP&F for income distributions by the securities' issuer while the securities are on loan. All securities loans can be terminated on demand and the maturities of the investments made with an acceptable form of collateral generally match the maturities of the securities loans.

OP&F has not experienced any losses due to credit or market risk on securities lending activity since implementation of the program. OP&F does have the ability to pledge or sell collateral securities absent a borrower default.

The following represents the balances relating to the securities lending transactions at December 31, 2006 and 2005:

Securities Lent as of December 31, 2006

Securities Lent	Underlying Security	Collateral Received	Collateral Fair Value	Type of Collateral
U.S. Government and Treasuries	$ 710,827,766	$727,209,247	$727,209,247	Cash
Domestic Corporate Fixed Income	220,354,191	225,740,920	225,740,920	Cash
Domestic Equities	773,368,181	804,906,180	804,906,180	Cash
International Equities	78,040,489	82,215,068	82,215,068	Cash
TOTAL SECURITIES LENT	**$ 1,782,590,627**	**$1,840,071,415**	**$1,840,071,415**	

Securities Lent as of December 31, 2005

Securities Lent	Underlying Security	Collateral Received	Collateral Fair Value	Type of Collateral
U.S. Government and Treasuries	$ 713,358,529	$ 727,183,756	$ 727,183,756	Cash
Domestic Corporate Fixed Income	215,368,305	220,847,641	220,847,641	Cash
Domestic Equities	604,061,376	630,928,334	630,928,334	Cash
International Equities	52,126,502	54,088,058	54,088,058	Cash
TOTAL SECURITIES LENT	**$ 1,584,914,712**	**$1,633,047,789**	**$1,633,047,789**	

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. OP&F's target allocation for international equity is 20 percent of the total investment assets. While OP&F has no specific policy regarding the international custodial credit risk, OP&F limits its international investment managers to hold five percent or less of their total portfolio in cash. Apart from cash needed for immediate settlement of pending trade transactions, any excess cash received in OP&F's trust accounts is invested in a U.S. dollar denominated Short Term Investment Fund (STIF). For the years ending December 31, 2006 and 2005, OP&F's exposure to foreign currency risk is as follows:

2006 Exposure To Foreign Currency Risk

Currency	Fair Value (Cash Deposits)	Fair Value (Common Stock)	Fair Value (Preferred Stock)	Fair Value (Commingled Fund)	Total Fair Value (Cash Deposits and Securities)
Australian Dollar	$ 205,067	$ 97,186,279	—	—	$ 97,391,346
Brazilian Real	—	1,702,006	$ 1,349,789	—	3,051,795
British Pound	111,707	428,856,629	—	—	428,968,336
Canadian Dollar	49,508	104,961,146	—	—	105,010,654
Danish Kroner	1,682	15,093,231	—	—	15,094,913
Euro	5,582,928	842,346,977	9,419,210	—	857,349,115
Hong Kong Dollar	176,795	133,209,589	—	—	133,386,384
Hungarian Forint	3,812	1,133,332	—	—	1,137,144
Indian Rupees	52,592	—	—	—	52,592
Israeli Shekel	1,465	296,729	—	—	298,194
Japanese Yen	314,845	366,316,485	—	—	366,631,330
Malaysian Ringgit	55,840	980,872	—	—	1,036,712
Mexican Peso	2,971	15,415,876	—	—	15,418,847
New Turkish Lira	3,410	23,986,485	—	—	23,989,895
New Zealand Dollar	1,021	—	—	—	1,021
Norwegian Krone	18,463	30,224,865	—	—	30,243,328
Polish Zloty	3,523	1,274,468	—	—	1,277,991
Singapore Dollar	5,592	13,238,268	—	—	13,243,860
South African Rand	2,280	—	—	—	2,280
South Korean Won	—	75,644,518	—	—	75,644,518
Swedish Krona	31,806	47,061,510	—	—	47,093,316
Swiss Franc	107,211	169,039,907	—	—	169,147,118
Taiwanese New Dollar	2,016,565	46,490,655	—	—	48,507,220
Thailand Baht	8,631	2,387,987	—	—	2,396,618
Foreign Securities Denominated in U.S. Dollars	N/A	107,606,800	—	111,061,857	218,668,657
Grand Total	**$ 8,757,714**	**$ 2,524,454,614**	**$ 10,768,999**	**$ 111,061,857**	**$ 2,655,043,184**

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2005 Exposure To Foreign Currency Risk

Currency	Fair Value (Cash Deposits)	Fair Value (Common Stock)	Fair Value (Preferred Stock)	Fair Value (Commingled Fund)	Total Fair Value (Cash Deposits and Securities)
Australian Dollar	$ 356,196	$ 71,064,142	—	—	$ 71,420,338
Brazilian Real	392,822	26,545,528	—	—	26,938,350
British Pound	104,092	368,001,194	—	—	368,105,286
Canadian Dollar	21,390	109,893,812	—	—	109,915,202
Chilean Peso	4,656	1,206,076	—	—	1,210,732
Czech Koruna	—	1,636,147	—	—	1,636,147
Danish Kroner	–1,246	13,910,795	—	—	13,909,549
Egyptian Pound	—	868,421	—	—	868,421
Euro	592,917	505,247,519	—	—	505,840,436
Hong Kong Dollar	12,106	97,190,873	—	—	97,202,979
Hungarian Forint	—	8,615,968	—	—	8,615,968
Indian Rupee	300,026	14,050,021	—	—	14,350,047
Indonesian Rupiah	4,697,904	4,917,812	—	—	9,615,716
Israeli Shekel	—	2,590,147	—	—	2,590,147
Japanese Yen	308,176	352,630,778	—	—	352,938,954
Malaysian Ringgit	42,052	15,450,474	—	—	15,492,526
Mexican Peso	106,426	16,556,445	—	—	16,662,871
New Turkish Lira	58,548	24,864,566	—	—	24,923,114
New Zealand Dollar	7,590	7,405,444	—	—	7,413,034
Norwegian Krone	34,503	35,861,264	—	—	35,895,767
Philippine Peso	1	6,019,582	—	—	6,019,583
Polish Zloty	—	2,488,719	—	—	2,488,719
Singapore Dollar	1,075	15,162,842	—	—	15,163,917
South African Rand	1,557	25,866,832	—	—	25,868,389
South Korean Won	74	79,279,652	—	—	79,279,726
Swedish Krona	8,313	33,547,520	—	—	33,555,833
Swiss Franc	94,965	125,804,905	—	—	125,899,870
Taiwanese New Dollar	689,702	83,501,988	—	—	84,191,690
Thailand Baht	68,681	11,208,076	—	—	11,276,757
Foreign Securities Denominated in U.S. Dollars	N/A	179,800,768	—	85,701,926	265,502,694
GRAND TOTAL	**$ 7,902,526**	**$ 2,241,188,310**	**—**	**$ 85,701,926**	**$ 2,334,792,762**

Derivatives disclosure requirements

Derivatives are generally defined as investment instruments whose value depends on, or is derived from, the value of an underlying asset, reference rate, or index.

OP&F has classified the following as derivatives:

- Mortgage and Asset–Backed Securities: OP&F invested in Planned Amortization Class and Sequential Pay Real Estate Mortgage Investment Conduit bonds issued by GNMA, FHLMC, and FNMA. Planned Amortization Class bonds are retired according to a payment schedule so as to have a stable average life and yield even if expected prepayments rates change within a specified broad range of prepayment possibilities. Sequential Pay bonds begin to pay principal when classes with an earlier priority have paid to a zero balance. Such bonds enjoy uninterrupted payment of principal until paid to a zero balance. In terms of credit risk, the United States government explicitly backs GNMA mortgage securities programs and implicitly backs FHLMC and FNMA mortgage securities programs.
- Futures Contracts: Future contracts are contracts to buy or sell units of an index or financial instrument on specified future date at a price agreed upon when the contract is originated. OP&F invested in three index funds: MSCI EAFE (Europe, Australia and Far East), S&P 500 and Russell 1000. Those funds to a minor extent utilized stock index futures contracts to equitize cash balances. OP&F's exposure represented less than one percent of the total portfolio market value at year–end.
- Forward–Currency Contracts: Forward currency contracts are legal agreements between two parties to purchase and sell a foreign currency, for a price specified at the contract date, with delivery and settlement in the future. OP&F, through its external investment managers, enters into forward currency contracts to hedge underlying foreign currency exposure in its non–U.S. equity portfolios back to the U.S. dollar or to provide the quantity of foreign currency needed to settle trades. Some of OP&F's Investment Managers may convert foreign currency back to U.S. dollars. The risks associated with such contracts include changes in the value of foreign currency relative to the U.S. dollar and the risk of default by the counterparty. In order to manage the risk of changes in the value of foreign currency, Investment Managers may not hedge more than 50 percent of the underlying equity portfolio value. To manage counterparty risk, Investment Managers utilize various financially sound counterparties. All the contracts are valued at the spot foreign exchange rate at December 31, 2006 and 2005. The changes in the value of the open contracts are recognized as unrealized appreciation/depreciation. A realized gain or loss is recorded at the time of the delivery/closing of the contract. The realized gain or loss is the difference between the value of the original contract and the closing/delivery value of such contracts. Both realized and unrealized gains and losses are included in the Statement of Changes in Fiduciary Net Assets as net appreciation/depreciation. As of December 31, 2006, OP&F had outstanding forward contract purchases with a fair value of $105,896,090 and sales with a fair value of $109,186,727. The unrealized depreciation of these contracts was $3,290,637. During 2006, OP&F realized a gain of $7,798,748 on delivered/closed contracts. As of December 31, 2005, OP&F had outstanding forward contracts purchases with a fair value of $117,038,067 and sales with a fair value of $115,716,113. The unrealized appreciation of these contracts was $1,321,954. During 2005, OP&F realized a gain of $975,167 on delivered/closed contracts.

OP&F has not violated any legal, regulatory, or contractual provisions by its participation in these types of derivative instruments and there is no known undue credit, market, or legal risk. These instruments were purchased in order to enhance OP&F's overall rate of return.

5—Mortgage Notes Payable

OP&F has undertaken mortgage loans collateralized by real estate properties for the purchase of the secured properties. The balances of these notes are included in the investment commitments payable on the statements of plan net assets. The details for the various notes are as follows:

Secured Property	Inception Date	Maturity Date	Interest Rate	Original Balance	Dec. 31, 2006 Balance	Dec. 31, 2005 Balance
The Loop	Apr 16, 2002	May 11, 2032	6.41%	$ 27,250,000	$ 25,715,100	$ 26,149,078
Tower Place	Dec 22, 2000	Jul 01, 2009	8.05%	25,625,000	—	23,155,801
St. Andrews	Oct 29, 1998	Dec 01, 2006	7.91%	16,152,000	—	14,394,000
Remington	May 24, 2002	Jun 01, 2009	6.25%	9,200,000	—	9,200,000
Frazee Road	Mar 29, 1999	Apr 01, 2009	6.75%	9,100,000	—	8,848,506
Oak Brook	Jun 15, 1997	Jun 15, 2007	6.40%	10,500,000	8,405,790	8,718,805
St. Andrews	Nov 12, 1998	Dec 01, 2006	6.50%	5,000,000	—	5,000,000
Hawthorne Plaza	Jul 15, 2005	Jan 10, 2012	7.47%	13,243,000	12,757,145	13,137,000
TOTAL				**$ 131,215,000**	**$ 46,878,035**	**$ 108,603,190**

As of December 31, 2006, scheduled annual principal payments on the mortgage loans are as follows:

2007	$ 9,081,180
2008	713,325
2009	769,034
2010	823,983
2011	882,877
Thereafter	34,604,636
TOTAL PAYMENTS	**$ 46,875,035**

A roll–forward of the mortgage notes payable is as follows:

Balance at December 31, 2005	**$108,603,190**
Additional debt assumed	—
Principal payments made	(61,725,155)
Balance at December 31, 2006	**$46,878,035**

6—Defined Benefit Pension Plan

OP&F contributes to the Ohio Public Employees Retirement System of Ohio (OPERS), a cost–sharing, multiple–employer plan for all staff. OPERS administers three separate pension plans, provides retirement, disability benefits, and survivor benefits to qualified plan members and beneficiaries. Benefit provisions and contribution requirements are established by the Ohio legislature and are codified in Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215–4642 or by calling (614) 466–2085 or 1–800–222–7377.

Plan members are required to contribute 9.0 percent of their annual covered salary, while employers are required to contribute 13.70 percent. OP&F's contributions to OPERS for the years ending December 31, 2006, 2005, 2004, were $1,179,686, $1,180,733 and $1,300,742, respectively, equal to the required contributions for each year.

7—Other Post–Employment Benefits

In addition to the pension benefits, OPERS provides post–retirement health care coverage to qualifying members based on years of service at retirement and plan selection qualification. Health care coverage for disability recipients and qualified survivor recipients is available. The health care coverage provided by OPERS is considered an Other Post–Employment Benefit (OPEB), as described in GASB Statement No. 12. At December 31, 2006, the plan had 369,804 active contributing participants.

A portion of each employer's contribution to OPERS is set aside for the funding of post–retirement health care. The 2006 employer rate was 13.7 percent of covered payroll, of which 4.5 percent was the portion used to fund health care for the year. For the year ended December 31, 2006, approximately $387,488 of employer contributions OP&F made to OPERS was the portion used to fund health care.

The Ohio Revised Code provides statutory authority requiring public employers to contribute to the post–retirement health care through their contributions to OPERS.

The actuarial value of OPERS net assets available for OPEB at December 31, 2005 was $11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $31.3 billion and $20.2 billion, respectively.

The actuarial present value of accrued post–employment benefits was determined based on the entry age normal method of funding. Significant actuarial assumptions based on OPERS latest actuarial review performed as of December 31, 2005 are as follows: an investment rate of return of 6.5 percent, investments valued at market value, adjusted annually to reflect 25.0 percent of unrealized market appreciation or depreciation on investment assets, no change in the number of active members, base pay rate increases of 4.0 percent and annual pay increases over and above the 4.0 percent base increase ranging from 0.5 percent to 6.3 percent and health care cost assume an increase of 4.0 percent annually.

8—Commitments and Contingencies

OP&F is a defendant in a number of lawsuits pertaining to matters that are incidental to performing routine business functions. OP&F management is of the opinion that ultimate resolution of such claims will not result in a material, adverse effect on OP&F's financial position as of December 31, 2006.

OP&F is committed to making additional capital contributions of $203,693,155 towards our private equity program. Our private equity program had $291,898,344 and $243,475,822 in fair value at December 31, 2006, and 2005, respectively.

9—State of Ohio Death Benefit Agency Fund

Pursuant to ORC Section 742.62, the Board of Trustees of the Ohio Police & Fire Pension Fund administers the State of Ohio Public Safety Officers Death Benefit Fund. This program was established by the State of Ohio to provide monthly benefit payments to eligible surviving family members of Ohio firefighters and law enforcement officers who have been killed in the line of duty or die of a duty—related accident or illness. Funds are disbursed to OP&F on a quarterly basis each State fiscal year (July 1–June 30) and are paid monthly by OP&F to eligible recipients. The unused balance at June 30 is returned to the State. The Death Benefit Agency Fund is considered to be an agency fund administered by the Ohio Police & Fire Pension Fund and, accordingly, its assets of $420,262 and $511,328 and the related liability for unpaid benefits are included in the accompanying financial statements as of December 31, 2006 and 2005, respectively.

10—Additional Disclosures

The Ohio Ethics Commission and the Franklin County Prosecutor's Office each have on–going investigations regarding the activities of former Board of Trustees members and specific staff members of OP&F. OP&F management believes the Ethics Commission investigation is focusing on the lack of disclosures made by trustees and staff members, as required by the Ohio Revised Code. It is also management's belief that the Franklin County Prosecutor's Office investigation focuses on actions of former Board members in the evaluation and retention process relating to the performance of outside investment managers hired by OP&F. While the results of these investigations are not known as of the date of the audit report, management does not believe the outcome of either investigation will have material effect on the organization's financial statements taken as a whole.

Required Supplementary Information

Notes to Required Supplementary Information

Description of Schedule of Funding Progress

Each time a new benefit is added which applies to service already rendered, an unfunded accrued liability is created. Laws governing the System require that these unfunded accrued liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to unfunded accrued liabilities.

The Schedule of Funding Progress includes two ratios that provide information about whether the financial strength of the System is improving or deteriorating over time. An improvement is indicated when the funded ratio (assets expressed as a percentage of the actuarial accrued liability) is increasing and the ratio of the unfunded actuarial liability to payroll is decreasing.

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Schedule of Funding Progress

Pension Trust (dollars in millions)

Valuation Year	Valuation Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a Percentage of Active Member Payroll
2005	$9,551	$12,190	$2,639	78.35%	$1,756	150.28%
2004	9,337	11,545	2,208	80.88%	1,684	131.13%
2003	9,337	10,798	1,461	86.47%	1,644	88.86%
2002	8,683	10,508	1,825	82.63%	1,606	113.64%
2001	9,076	9,786	710	92.75%	1,534	46.28%
2000	8,498	9,507	1,009	89.39%	1,408	71.66%

The amounts reported in the schedule above do not include assets or liabilities for post–employment health care benefits.

Retiree Health Care Trust (dollars in millions)

Valuation Year	Valuation Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a Percentage of Active Member Payroll
2005	$343	$3,335	$2,992	10.30%	$1,756	170.40%

Required Supplementary Information

Schedule of Contributions From Employers and Other Contributing Entities

Pension Trust

	Annual Required Contributions*	Percentage Contributed
Year ended December 31, 1999	$191,646,415	100%
Year ended December 31, 2000	206,796,608	100%
Year ended December 31, 2001	205,979,830	100%
Year ended December 31, 2002	205,992,860	100%
Year ended December 31, 2003	277,724,840	79%
Year ended December 31, 2004	257,851,201	88%
Year ended December 31, 2005	292,454,788	79%

* The amounts reported in this schedule do not include contributions for post–employment health care coverage. The Government Accounting Standards Board (GASB) required disclosure of the annual Required Contributions (ARC) using a maximum amortizations period of 30 years. Amounts shown as the ARC for each year may be different from the contributions required by state statue. The information here was determined as part of the actuarial valuations for the date indicated. Additional information as of the latest actuarial valuations is shown in the table below.

Retiree Health Care Trust (dollars in millions)

	Annual Required Contributions*	Percentage Contributed
Year ended December 31, 2006	**	**

** The ARC as a percentage of payroll is 15.04 percent. The expected contribution is 7.75 percent of payroll, or about 51.5 percent of the ARC rate. The ARC amount (dollars) is equal to the ARC rate times the 2006 payroll. The ARC amount and the actual percentage contributed will be determined after 2006 has ended and will be reported in the January 1, 2007 valuation report.

Schedule of Administrative Expenses*

For the year ended December 31,	2006	2005
Personnel Services		
Salaries and wages	$8,763,779	$8,963,375
OPERS contributions	1,179,686	1,180,733
Insurance	1,731,051	1,502,598
Fringe benefits/employee recognition	22,838	28,262
Tuition reimbursement	47,249	58,741
Total Personnel Services	**11,744,603**	**11,733,709**
Professional Services		
Actuarial	474,983	329,210
Audit	360,519	158,787
Custodial Banking Fees	1,812,154	2,079,448
Investment Fees & Consulting	22,463,374	19,884,412
Other Consulting (Disability, Software, Legal, and Health Care)	1,457,231	1,417,039
Banking Expense	41,876	50,715
Total Professional Services	**26,610,137**	**23,919,611**
Communications Expense		
Printing and Postage	561,480	573,060
Telephone	92,072	98,429
Member/Employer Education	38,542	36,651
Other Communications	80,400	83,649
Total Communications Expense	**772,494**	**791,789**
Other Operating Expense		
Conferences and Education	112,026	77,784
Travel	149,363	127,618
Computer Technology	496,421	338,740
Other Operating	630,591	524,300
Warrant Clearing	6,446	7,828
ORSC Expense	37,750	44,208
Depreciation Expense—Capital	2,073,451	1,977,004
Total Other Operating Expenses	**3,506,048**	**3,097,482**
Net Building Expense (includes rent)	1,167,618	1,153,125
Total Operating Expenses	**43,800,900**	**40,695,716**
Investment Expenses	**(27,038,607)**	**(24,766,071)**
NET ADMINISTRATIVE EXPENSES	**$ 16,762,293**	**$ 15,929,645**

Schedule of Investment Expenses**

For the year ended December 31,	2006	2005
Investment Manager Services	$21,260,722	$19,062,017
Custodial Banking Fees	1,812,154	2,079,448
Other Professional Services	1,202,653	822,397
Other Direct Investment Expenses	1,704,392	1,652,120
Allocation of Other Administrative Expenses	1,058,686	1,150,089
INVESTMENT EXPENSES	**$27,038,607**	**$24,766,071**

* Includes investment related administrative expenses.

** A portion of the non–Investment Department administrative expenses is allocated to Investment Expense based on the ratio investment staff to Total Fund staff.

Supplementary Information

Combining Statement of Changes in Assets and Liabilities—Death Benefit Agency Fund

As of December 31, 2006

Death Benefit Agency Fund

	Balance December 31, 2005	Additions	Subtractions	Balance December 31, 2006
Assets				
Cash and Short–term Investments	$ 511,328	$ 20,000,000	$ 20,091,066	$ 420,262
Total Assets	**511,328**	**20,000,000**	**20,091,066**	**420,262**
Liabilities				
Due to State of Ohio	511,328	20,000,000	20,091,066	420,262
Total Liabilities	**$ 511,328**	**$ 20,000,000**	**$ 20,091,066**	**$ 420,262**

As of December 31, 2005

Death Benefit Agency Fund

	Balance December 31, 2004	Additions	Subtractions	Balance December 31, 2005
Assets				
Cash and Short–term Investments	$ 15,532,874	$ 10,000,000	$ 25,021,546	$ 511,328
Total Assets	**15,532,874**	**10,000,000**	**25,021,546**	**511,328**
Liabilities				
Due to State of Ohio	15,532,874	10,000,000	25,021,546	511,328
Total Liabilities	**$ 15,532,874**	**$ 10,000,000**	**$ 25,021,546**	**$ 511,328**

The 2006 Comprehensive Annual Financial Report

Investment Section

The Ohio Police & Fire Pension Fund

Ohio Police & Fire Pension Fund

140 East Town Street • Columbus, Ohio 43215
www.op–f.org • 800–860–9599

Investment Report

Prepared through a combined effort of the Investment Department

Introduction

The investment authority of the Fund is specified in Section 742 of the Ohio Revised Code. Importantly, the Code requires that the Board and other fiduciaries discharge their duties solely in the interest of the participants and beneficiaries, for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the Fund. Within the guidelines of the Code, the Fund has developed an internal Investment Policy that provides for appropriate diversification of assets, and an acceptable expected return on investments after consideration of investment risks. Investment performance returns are prepared by Wilshire Associates.

Significant Developments In 2006

We spent a significant amount of time last year conducting searches for and working on the implementation of new portable alpha strategies within our domestic equity portfolio. We also continued work on the transition of our real estate portfolio from a separate account dominated approach to one focused solely on the use of commingled funds. Following are these and other noteworthy investment accomplishments and issues addressed by the Fund last year:

- Continued implementation of portable alpha initiative
  - Conducted search for active currency management and hired Mellon Capital Management and FX Concepts, Inc.
  - Conducted search for global macro alpha overlay services and hired AQR Capital Management and Bridgewater Associates
- Made structural changes in Non–U.S. Equity Portfolio
  - Terminated an Emerging Markets mandate and transitioned assets to our three existing ACWI ex–U.S. managers
- Approved portable alpha implementation methodology for our global inflation protected securities portfolio
- Continued to work toward our three percent target allocation to private markets
  - Made commitments to Park Street Capital Private Equity Fund VII, Landmark Equity Partners XIII, HarbourVest International Private Equity Partners V Investment Program, Blue Point Capital Partners II and The 2007 Adams Street Partnership Fund Program—Non–U.S. Fund
- Continued to transform our real estate structure from a mix of separate accounts and commingled funds to solely commingled funds
  - Conducted search for and hired an appraisal firm for the transition of properties from RREEF to INVESCO
  - Transitioned three properties from RREEF's management to INVESCO
  - Sold the remaining three properties in the RREEF separate account
  - Sold two properties in the INVESCO separate account
  - Initiated efforts to explore a possible swap of the remaining seven properties in the INVESCO separate account for ownership interests in the INVESCO Core Real Estate Fund versus selling the properties individually
- Continued to work toward our eight percent target allocation in real estate
  - Made significant commitments to five open–end, core real estate commingled funds
  - Made commitments to six enhanced and high–return real estate commingled funds
- Continued to work with Independent Fiduciary Services on a statutorily required fiduciary audit
- Amended our Derivatives Policy Statement
- Amended our Real Estate Strategic and Investment Plans
- Amended our Private Equity Investment Policy
- Amended our Internal Real Estate Policies
- Amended our Proxy Voting Policy
- Delegated proxy voting authority to Institutional Shareholder Services
- Portfolio value increased by $1.28 billion
- Portfolio return was 16.15 percent gross of fees

Economic Environment

The performance of the U.S. economy in 2006 was solid, but irregular. After a strong first quarter rebound from the impact of hurricanes in late 2005, economic growth over the final three quarters of 2006 slowed to a rate below the average of the prior two years. For all of 2006, real GDP increased 3.3 percent, versus 3.2 percent the prior year. The Fed's campaign of persistent rate increases begun in mid–2004 almost certainly contributed to the economy's slowing rate of growth. Another major contributor to the slowdown was the rapid decline in the housing market, which had been a positive in recent years. Still, the U.S. consumer continued to bolster the economy with strong spending increases as household income gained over the year. Business spending rose for all of 2006, but it too slowed going into year–end because of weakness in construction and auto manufacturing. Strong foreign activity helped boost demand for U.S. exports. With this as a setting, corporate profits soared, and U.S. employers for the third straight year added more than two million workers to their payrolls. As a result, the unemployment rate fell to its lowest levels in five years, ultimately ending the year at 4.5 percent.

Inflation slowed in 2006 from the higher rates recorded in 2005 and 2004. For all of 2006, inflation as measured by the CPI, rose a more acceptable 2.5 percent versus 3.4 percent and 3.3 percent in 2005 and 2004, respectively. Energy prices overall fell after experiencing major increases over the past couple years. Oil prices jumped to record levels over the first seven plus months of 2006 but turned tumbled sharply over the remainder of the year. Natural gas prices spent the first third of the year at fairly lofty levels, but spent the rest of the year falling. Thus, the CPI registered annual growth rates above 3.5 percent for the first half of the year but declined into a 1.5 percent to 2.5 percent range the second half. The gyrations in energy prices affected the cost of producing other goods and services, especially energy–intensive items like chemicals and plastics. Consequently, core CPI, which excludes food and energy, rose into August before settling back to end the full year at a 2.6 percent rate. This was highest level since 2001, but the markets expectations about inflation seemed to remain reasonable.

The Federal Reserve continued their campaign of raising the federal funds rate by 25 basis points ("bps") up through their June 2006 meeting. Their June action marked the seventeenth straight 25 bps increase since June 2004 and took the funds rate to 5.25 percent, where it remains today. Even though Fed policy has apparently been on hold since last June, their stated concern has remained the possibility of rising inflation. That said, the Fed may have a positive outlook for the economy, but they must still be concerned about the contraction in the housing industry and any ripple effects on overall growth. Demand for both new and existing homes began to soften in the middle of 2005, and the decline picked up steam over the course of 2006. Still, wage gains and continued employment growth should help the consumer maintain reasonable spending levels. Overall, U.S. economic growth should be below its long–term trend rate over the coming year.

Economic expansion outside the U.S. was strong in 2006, as the growth continued in all major regions of the globe. Growth in Japan slowed a bit but managed to stay on the plus side of the ledger, and growth accelerated in the euro area. These trends helped improve labor market conditions in both areas. Developing country economies survived a second quarter downdraft in their financial markets and reported strong growth again last year. The Chinese economy maintained its rapid growth, while its stock market skyrocketed. While energy prices added to consumer price inflation around the world, the tightening moves by major central banks helped keep inflation rates at reasonable levels.

The outlook for 2007 is hazy. The Fed expects the economy to grow at a modest pace largely due to continued job growth and rising wages. Countering those trends is the downturn in housing. Rising mortgage defaults, especially in the subprime market, and foreclosures have led to housing's worst recession in 15 years, which could have a spillover effect on the rest of the economy. Construction of new homes recently fell at a 19.8 percent annual rate, the most since 1991, and new–home sales are reported to have fallen to their lowest level in almost seven years. Consumer spending, which makes up more than two–thirds of GDP, remains a bright spot. For all of 2006, corporate profits rose 21 percent, but are expected to grow at a much slower pace this year. If housing lingers on the bottom and profit growth falters, consumer spending will need to be resilient for the economy to maintain acceptable growth. Still, the Fed recently reiterated that their major policy concern is that inflation will not moderate as expected.

Total Fund

Driven by robust returns in the U.S. and international equity markets, our portfolio and our policy index experienced strong returns in 2006. In addition to the solid equity markets' returns, our allocations to alternative investments in private markets and real estate clearly added to our overall returns. Our total portfolio, net of mortgage loans, was valued at $10.51 billion at the beginning of the year and ended the year at $11.79 billion. This gain contributed to a healthy 2006 return of 16.15 percent gross of fees compared to a policy index return of 15.69 percent. This brought our 3–year annualized return to 12.74 percent gross of fees and our 5–year annualized return to 10.04 percent gross of fees. Both our 3–year and 5–year returns exceeded our policy index returns of 12.47 percent and 9.98 percent, respectively.

We believe that a well–diversified portfolio will serve the Fund well over the long–term, and in an effort to maintain that diversity, we continue to rebalance the portfolio assets within allocation ranges as dictated by investment policy. In addition to forcing us to sell high and buy low, a disciplined rebalancing policy removes human emotion from the decision making process. As stated in past reports and as evidenced in recent structural decisions, we continue to evaluate non–correlated, non–traditional asset classes in our search for optimal risk–adjusted returns.

Equities

For most U.S. equity investors, it would be an understatement to say that 2006 was a very good year. Considering the continued market frightening news though, it is surprising that it was such a good year. Continued strong corporate earnings growth and generally upbeat news on the economy, were countered by mounting concern over the ongoing U.S. involvement in Iraq and Afghanistan; a weakening housing market; and enormous losses in the U.S. auto markets. The stock market's response was to focus on an apparent end to rising interest rates once the FOMC went on hold after raising rates in June for the seventeenth straight time.

Continued healthy economic growth, drove performance in the Dow Jones Industrial Average to more than 16 percent in 2006. The Dow ended the year at 12,463.15, slightly off the then all time high of 12,529.88. With the exception of the Russell 1000 growth segment, returns for major U.S. equity indices were in the double digits, well above their long–term averages. The Wilshire 5000 index returned 15.77 percent in 2006, and the S&P 500 Index returned 15.81 percent. Value stocks maintained their strong outperformance, despite expectations that growth stocks were due to outperform. While the large cap Russell 1000 Index returned 15.5 percent, the Russell Midcap Index returned 15.27 percent. Meanwhile, the small cap Russell 2000 Index outperformed both the large and mid cap indices with a return of 18.35 percent, another continuing trend that went against most expectations. Within these indices, value continued to outperform growth over the entire capitalization range. Our 2006 U.S. equity composite return was 14.8 percent gross of fees lagging its benchmark, the Wilshire 5000, by 97 bps.

Equity prices rose substantially in most non–U.S. developed and emerging market countries in 2006. This performance was supported by the continued global economic expansion and by interest rates that, in most countries, remained well below historical averages. The U.S. dollar fell against major currencies, which increased the gain for U.S.–based investors. The MSCI ACWI ex–U.S. Index returned 18.61 percent in local currency terms and 27.15 percent in U.S. dollars. The MSCI EAFE Index of non–U.S. developed countries returned 16.45 percent in local currency and 26.34 percent in U.S. dollars, while the MSCI Emerging Markets Index returned 28.87 percent in local currency and 32.58 percent in U.S. dollars. Against a basket of major currencies, the nominal trade–weighted exchange value of the dollar declined 3.8 percent last year. The dollar's overall depreciation was driven by its sharp losses against the currencies of Europe, and the Pacific area excluding Japan. Overall, our international managers combined for a total return of 28.24 percent gross of fees beating our international equity benchmark, the MSCI ACWI ex–U.S. index, by 159 bps.

Given the outlook for somewhat slower economic growth, a shrinking supply of stock available due to companies going private, anticipated earnings pressure from growing wages and higher interest rates, as well as housing market weakness, 2007 domestic equity returns are expected to be challenged compared to 2006 returns. Still returns are expected to show modest gains given a continuation of global economic growth, low to moderate interest rates, and reasonable valuations. Given their greater exposure to foreign economies that have been and are expected to outpace U.S. growth, it would not be surprising to see U.S. large cap stocks finally take over the leadership in performance in 2007. With expectations for slower U.S. growth relative to Europe and Asia and pressure on the U.S. dollar, international equities are again expected to outpace the U.S. equity market.

Fixed Income

For the U.S. fixed income markets as a whole, 2006 was a tale of two halves. From January to June the market was more concerned with Fed actions, inflation and oil price fears. From July to December the market was focused on a tumbling housing market and automobile manufacturing. GDP slowed, and inflation worries slowly subsided along with the pace of economic growth.

The Lehman Long Term Treasury Index had a total return for the year of 1.85 percent. Corporate bonds were strong in 2006, benefiting from strong earnings, fairly stable interest rates, and the very large CDO market. The liquidity that had been such a concern turned out to be a net benefit to the corporate debt market. Strong foreign demand has been an enabler for the new issue market as well. Corporate bonds benefited from high liquidity, and low volatility.

Bond markets were dominated during 2006 by speculation about the pace and duration of the Fed's tightening cycle. The market seems to assume that the Fed will not make any moves until late 2007. The early year tightening moves by the Fed and coincident fears of inflation drove short–term rates higher at a faster pace than long–term rates and produced an inverted yield curve. The difference in yield between two and 10–year Treasuries was four bps at the start of 2006 and inverted to minus eleven bps by year–end. Inversion has often, but not always, been an indicator of approaching recession.

Our core fixed income composite returned 4.59 percent gross of fees versus the Lehman Aggregate return of 4.33 percent for 2006. The Lehman U.S. TIPS Index return was 0.41 percent for the year, while our TIPS manager's return was much better at 2.97 percent gross of fees.

Even though there was a significant rally over the second half of the year, bond yields bounced slightly higher toward year–end. Many market analysts think that inflation has topped out and economic growth will remain slow at best. With this as a backdrop, the Fed seemingly on hold and continued strong inflows of foreign capital into our bond market, the outlook for bond yield should be stable to lower over the course of 2007. Still, the Fed has not relented on their concern over the rate of inflation, so we may be in for a long wait before they help the bond market with any positive actions on short–term interest rates.

High Yield

In the context of the U.S. high yield market, as one Prudential analyst noted, "Solid credit fundamentals and strong investor demand helped lift high yield bonds over all other U.S. bond sectors in 2006." The high yield market, as measured by the CSFB Developed Countries HY Index, finished the year on a very positive note with a return of 11.83 percent.

Credit spreads, which measure the difference in yield between high quality and lower quality bonds, helped performance in 2006. Over the course of the year, lower quality bonds performed better than their high quality counterparts. High yield bonds benefited primarily from a solid credit environment, an historically low default rate, and investors who were desperate for any yield advantage. The spread between the Merrill Lynch High Yield Master Index and the 10–Year Treasury stood at 408 bps at the start of 2006 and ended the year at 371 bps. This spread did not decline in a straight–line though. Spreads started wide, collapsed to 310 bps in May, then widened back out to 371 bps in December. The market was initially wary about oversupply. However, non–traditional high yield investors, such as equity income funds, hedge funds, private equity funds, and investment grade investors started buying. High yield issuance has slowed more recently from the increase in secured, floating rate bank loans. Many high yield issuers are now turning to the bank loan market to source some or all of their debt. Overall, the credit quality of issues coming to market climbed last year, with the average issue being a B rating, up from last years B– or below.

The default rate remained low in 2006, hovering just over the record lows of 2005, and continues to compare favorably to the long–term average default rate of 4.2 percent for the domestic high yield market. More than half of 2005's total defaults were concentrated within the Transportation and Aerospace industries, but these sectors still led performance in 2006.

Currently, our managers think the high yield market is fairly valued from both a spread and industry perspective. They are watching M&A and LBO activity, which could increase volatility but also provide opportunities, especially in the new issue market. Unless some significant event escalates current risk factors, high yield should continue to perform well in 2007.

Our composite high yield return was 10.22 percent gross of fees in 2006, while our benchmark, the CSFB Developed Countries HY Index, had a return of 11.83 percent.

Real Estate

Despite early concerns about looming inflation and rising interest rates, real estate performance was again strong in 2006. The NCREIF Property Index (NPI) generated a total gross return of 16.6 percent for the year. Capital flows to the asset class remained extremely strong, as pension funds, leveraged investors, offshore investors and private REITs all continued to move capital into the asset class. While record capital flows to real estate encompassed all strategies, high quality, well located, income producing core properties have been a preferred investment target. The result is continued cap rate compression in the U.S., although this appears to have stabilized in recent quarters.

While the expected capital flows to the U.S. markets should decline, the projected total is extraordinary and will continue to support increased pricing absent a shock or severe correction in the market. While the impact of such strong capital flows is a concern, improving real estate fundamentals, including positive net absorption of space, rising occupancy rates, and stable to increasing rents, should support income growth and help to mitigate downside effects on pricing. These improving fundamentals are expected to continue in 2007. However, it is likely that returns from existing investments will not match their recent highs.

Of the five property types represented in the NPI, the hotel sector, which is the smallest at 2.3 percent of the index, led the way in 2006 with a 23.6 percent return. Conditions in the office sector also improved dramatically in 2006 as vacancy rates continued to fall in most markets and landlords reduced concessions and tenant improvement costs. The office sector posted a total gross return of 19.2 percent for the year. After three years of lagging performance, the industrial sector began to turnaround in 2004. Industrial properties provided a 17.0 percent return in 2006, placing this sector third among the five property types tracked by the NPI. In 2006, multifamily returns stayed above average, posting a total return of 14.6 percent. The fundamentals for multifamily were favorable. While cap rates have fallen for all property types, they have declined precipitously in the multifamily sector to roughly five percent at the end of 2006, which is about 150 bps below other property types. Though the retail sector performed well in 2006, it is likely that its peak has passed as the pace of new retail developments threatens to exceed demand over the coming years. The sector posted a total gross return of 13.4 percent in 2006, compared to 20.0 percent in 2005.

At the end of 2006, the market value of our real estate portfolio was approximately $612 million, or 5.2 percent of total assets. Unfunded commitments of $522 million would bring the total funded and committed portfolio to $1.1 billion, or 9.6 percent of total Fund assets. The portfolio market value plus the unfunded commitments currently exceeds the targeted allocation at the fund level of 8.0 percent due to our intended over commitments to the non–core portion of the portfolio. It is highly unlikely, due to the pace of capital calls and the return of capital, that the value of the portfolio will exceed the target. The portfolio return for the year was a healthy 23.3 percent, outperforming the NPI return of 16.6 percent by 670 bps. Portfolio returns consisted of 7.4 percent income and 15.1 percent appreciation.

In 2006, we made total commitments of $550 million to five open–end core funds, one enhanced return and five high return funds. Prime Property Fund, RREEF America REIT II, PRISA, JPMorgan Strategic Property Fund and Heitman Core Property Fund are the open–end core commingled funds. TA Associates Realty VIII was the enhanced return fund to which we committed. In the high return sector, we made commitments to Westbrook Partners Fund VII, Walton Street Real Estate Fund V, Blackstone Real Estate Partners V, Stockbridge Real Estate Fund II, and Colony Investors VIII.

In 2005, the Board decided to change the primary investment vehicle for stable return investments from separate accounts to commingled funds. Consequently, we terminated unfunded commitments to our separate accounts managed by INVESCO Realty Advisors and RREEF. The Fund has invested new capital in the stable return sector through commitments to five open–end commingled funds, and will continue to invest in non–core sectors through open and closed end funds. In 2006, the Fund disposed of Inland Empire, an industrial asset in Riverside, CA, Vista Ridge, a retail asset in Lewisville, TX, and the St. Andrews Apartments, located in Dallas, TX within the RREEF portfolio. Sales from the INVESCO portfolio included Remington Apartments, located in Cleveland, OH and 200 Tower Place, an office property in Atlanta, GA. These sales were based upon property level issues and market considerations, not on a need to liquidate the separate accounts. In April 2006, RREEF transferred management responsibility of its three remaining separate account properties to INVESCO.

At the July 2006 meeting, the Board approved a recommendation by The Townsend Group to seek an independent fiduciary to explore the possibility of exchanging the remaining assets in the INVESCO separate account for units in the INVESCO Core Real Estate Fund. The Fund issued an RFP in January 2007 and a firm has been selected for the engagement. The exchange of properties for units may generate additional proceeds to the Fund relative to a marketed sale by avoiding brokerage fees and by eliminating the time sale proceeds would reside in lower returning cash investments.

We are positioned to continue to increase the size of our real estate portfolio in 2007. The Board approved an investment plan that calls for the Fund to commit $125 million to reach our eight percent allocation. Of that amount, $50 million will be targeted for investments in the non–core sector and $75 million will be targeted for core investments. Given the current pricing of core real estate and investment queues, we will attempt to deploy this capital as well as the unfunded commitments to Heitman Core Property Fund, JP Morgan Strategic Property Fund and PRISA over the next year. We also expect to commit the remainder of our available assets to enhanced and high return funds in 2007, seeking to take advantage of improving real estate fundamentals and gaps in the capital markets. We will continue to seek high quality properties and funds, as we believe assets that are of superior quality and location will outperform over time and will provide stability to our portfolio.

Private Markets

For the year ended September 2006 (private market returns are lagged by one quarter), our allocation to private markets provided a return of 17.43 percent versus its public markets–based benchmark (Wilshire 5000 + five percent) return of 15.39 percent. In terms of the two most prominent private markets subclasses, for the one–year ended September 2006, venture capital returned 10.8 percent and buyouts returned 23.6 percent, according to Thomson Venture Economics and the National Venture Capital Association.

Liquidity and, in turn, performance continued to return to "normal" levels in 2006 after the dismal performance for the asset class during the period from 2001 to 2003. Robust merger and acquisition activity continued to drive returns in both private markets subclasses. A record $1.55 trillion of mergers and acquisitions occurred in the U.S. last year with nearly a third of the dollar value involving private equity funds. Put into context, private equity funds accounted for only three percent of the dollar value of all mergers and acquisitions just five years ago. Merger and acquisition activity continues at an elevated level due to Corporate America's desire to put to work the large amount of cash on their balance sheets. In addition, institutional investors continue to increase allocations to private markets, which in turn leads to record amounts of money being raised by private equity and venture capital funds. Also contributing to activity are the low interest rates on leveraged loans with few or no covenants that private equity firms are getting from banks.

The U.S. initial public offering ("IPO") market is currently bifurcated. On the one hand, the U.S. IPO market for venture–backed companies remains challenged. In 2006, only 56 venture–backed companies achieved liquidity through an IPO. On the other hand, leveraged buyout–backed IPOs enjoyed another banner year as dollar volume grew to record levels and the number of deals roughly doubled from their historic pace. The reason for the divergence is two–fold. For one, the high real and perceived costs of becoming Sarbanes Oxley compliant is a deterrent for younger and smaller companies often associated with venture–backing as opposed to typically more mature buyout–backed companies. Secondly, investors now demand a critical mass for U.S. IPO candidates. Unlike several years ago, investors now favor more mature, revenue producing companies with less risk than potential growth companies with little or no revenue, the latter being predominantly venture–backed companies.

Areas of concern within the private markets asset class are increasing venture capital pre–money valuations (pricing), high leveraged buyout purchase price multiples (pricing) and the record amount of capital raised by venture capital and private equity firms in 2006. According to figures compiled by the Private Equity Analyst, fundraising across all subclasses of the asset class was $215.4 billion. This represents a 33 percent increase over the amount raised in 2005 and also sets the record for the amount of capital raised within a calendar year. Like 2005, the main culprit has been the amount of capital raised by the buyout subclass, especially among buyout funds larger than $5 billion. The biggest question facing the industry remains whether the record amount of fundraising will lead to lower future returns.

We continue to work steadily toward our three percent target allocation. On an invested basis, private markets comprised 2.4 percent of the Fund's assets versus 2.2 percent at the end of 2005. Our total committed capital since the inception of our private markets program was $596.8 million, of which $179.5 million has yet to be called. In addition, we have €37.5 million in Euro commitments, of which €18.3 million has yet to be called. Distributions since inception of the program have totaled $237.2 million and €6.4 million.

In the future, we will continue to work toward our three percent target by reviewing and monitoring existing relationships for further investment and by looking at a limited number of new managers. In addition, we will continue to look for ways to diversify our private markets program in order to achieve the highest risk–adjusted returns.

2007 Developments And Challenges Ahead

Over the past year, our Board continued their intense analysis of ways to meet the Fund's 30–year statutory funding requirement. They evaluated multiple scenarios and ultimately presented to the State Legislature a plan that would meet this statutory funding requirement over a period of years. We await the Legislature's response. In addition, the Board has spent more than a year evaluating changes to our health care plan in order to improve the plan's solvency. Through all this, the Board and staff have nevertheless been active on the investment front so far in 2007. While it is still early in the year, we are off to a good start in our efforts to evaluate and implement ways to provide prudent and competitive returns for our membership. Below are some of the items already addressed in 2007 and a number that still lie ahead:

- Completed implementation of pending portable alpha initiatives
  - Portable alpha—Enhanced index
    - Western Asset Management commenced trading
  - Portable alpha—Active currency
    - Mellon Capital commenced trading
- Complete implementation of pending portable alpha initiatives
  - Portable alpha—Active currency
    - Commence trading for FX Concepts Inc.
  - Portable alpha—Global macro
    - Commence trading for AQR Capital Management and Bridgewater Associates
  - Portable alpha—Long/short equity
    - Initiate and complete search for qualified managers and implement their mandates
- Reviewed our International Equity Portfolio Structure
  - Commenced initiative to convert Causeway Capital Management from current EAFE mandate to ACWI ex–U.S. mandate
- Initiate Asset/Liability Study
  - Review investment structure
  - Review target allocations to existing asset classes
  - Evaluate new alternative methods or asset classes to add value
    - REITS
    - Timber
    - Commodities
    - 130/30 or Active Extension Strategies
    - Cash overlay or equitization
    - Portable alpha implementation within fixed income or international equity portfolios
- Complete implementation of portable alpha strategy for our global inflation protected securities portfolio
- Continue to transform our real estate structure from a mix of separate accounts and commingled funds to solely commingled funds
  - Hired real estate independent fiduciary
  - Based upon the recommendation and fairness opinion to be provided by real estate independent fiduciary, determine whether to contribute remaining properties in INVESCO separate account to INVESCO Core Real Estate Fund or to sell the properties individually

- Continue to work toward target allocation in real estate
  - Made commitment to Blackstone Real Estate Partners VI
- Continue to work toward target allocation in private markets
- Received final IFS fiduciary audit report and implement acceptable recommendations
- Revised our Proxy Voting Policy with changes aimed at board–related proposals, corporate responsibility and non–social shareholder proposals

We have always stated our intention to earn at least an 8.25 percent return over time, which is our actuarial assumption rate. As mentioned for several years now, we are targeting a higher return to help the Fund meet its statutory funding requirements and to lessen the impact of rising health care costs. Our consultant, the Board and staff expect to initiate an asset/liability study in late 2007 to review possible liability side changes and our return assumptions as well as to determine if we need to modify our asset allocation plan and investment structure. In conjunction, we hope to explore and consider new investment ideas that may improve the risk–adjusted returns of the Fund. Finally, we continue to look for ways to improve the efficiency of and reduce the costs of our operations.

Investment Portfolio Summary

Investment Portfolio Summary

Investment Type	% of Fair Value	Fair Value
Commercial Paper	5.02%	$ 594,596,041
U.S. government bonds	5.04%	596,166,698
Corporate bonds and obligations	6.62%	783,741,390
Mortgage & asset–backed obligations	6.76%	799,440,662
Domestic stocks	18.67%	2,209,412,851
Domestic pooled stocks	26.89%	3,181,931,222
International securities	22.34%	2,642,994,833
Real estate	5.57%	658,813,618
Commercial mortgage funds	0.62%	73,314,366
Private Equity	2.47%	291,898,344
TOTAL	**100.00%**	**$ 11,832,310,025**

Ten Largest Common Stocks (by Fair Value)

Stock	Shares	Fair Value
Exxon Mobil Corp	1,610,458	$123,409,373
General Electric Co	2,317,461	86,232,714
Citigroup Inc	1,107,604	61,693,542
Microsoft Corp	1,979,432	59,105,825
Bank Of America Corp	1,016,687	54,280,920
Procter & Gamble Co	730,659	46,959,455
BNP Paribas	421,069	45,896,030
Altria Group Inc	514,641	44,166,502
Johnson & Johnson	659,725	43,555,014
Cisco Systems Inc	1,591,801	43,503,909

Ten Largest Bonds and Obligations (by Fair Value)

	Coupon	Maturity Date	Par Value	Fair Value
FNMA	5.000	01/01/2037	$ 124,950,000	$120,957,961
U.S. Treasury Note	3.875	04/15/2029	51,190,000	79,173,508
U.S. Treasury Note	4.625	10/31/2011	58,330,000	58,118,262
U.S. Treasury Note	4.875	02/15/2012	54,500,000	54,998,130
FNMA TBA*	5.500	01/01/2037	46,600,000	46,068,469
U.S. Treasury Note	3.625	04/15/2028	29,200,000	44,010,846
U.S. Treasury Note	3.250	01/15/2009	43,200,000	41,917,392
U.S. Treasury Note	4.875	04/30/2011	26,530,000	26,701,914
FNMA POOL	4.000	09/01/2018	26,479,035	25,004,153
U.S. Treasury Note	4.625	12/31/2011	24,490,000	24,417,295

* To be announced (TBA)

Ten Largest Real Estate Holdings (by Fair Value)

Property	Fair Value
The Loop	$85,600,000
Morgan Stanley Prime Property Fund	52,287,333
RREEF America	50,057,763
Tempe	46,320,000
Oakbrook	35,505,367
49 Stevenson	35,027,487
Hawthorne Plaza	34,703,207
Frazee Road	34,302,331
Treeridge Apartments	32,580,000
CB Richard Ellis III	31,499,293

A complete listing of the portfolio's holdings can be obtained by contacting the Ohio Police & Fire Pension fund at (614) 228–2975.

Schedule Of Investment Results For Year Ended December 31, 2006

	Annualized Rates of Return		
	1—Year	3—Year	5—Year
U.S. Equity			
OP&F	**14.80%**	**11.77%**	**7.80%**
DJ Wilshire 5000	15.77%	11.47%	7.61%
Int'l Equity			
OP&F	**28.24%**	**21.42%**	**15.94%**
MSCI ACWI ex–US (Net)	26.65%	21.32%	16.42%
Fixed Income			
OP&F—Core	**4.59%**	**3.97%**	**5.15%**
Lehman Aggregate	4.33%	3.70%	5.06%
OP&F—High Yield	**10.22%**	**7.65%**	**10.08%**
CSFB Developed Countries HY	11.83%	8.43%	10.94%
OP&F—TIPS	**2.97%**	**4.24%**	**NA**
Lehman US TIPS Index	0.41%	3.85%	NA
OP&F—Commercial Mortgages *	**5.08%**	**6.55%**	**6.96%**
Lehman Mortgage Index *	4.19%	3.94%	4.53%
Real Estate *			
OP&F	**26.60%**	**21.99%**	**16.76%**
Wilshire Real Estate Fund	16.59%	17.02%	12.56%
NCREIF	17.60%	16.40%	12.40%
Private Equity *			
OP&F	**17.43%**	**16.84%**	**1.66%**
Wilshire 5000 + 5%	15.39%	18.25%	13.63%
Total Portfolio			
OP&F	**16.15%**	**12.74%**	**10.04%**
** Policy Index	15.69%	12.47%	9.98%

* One quarter in arrears

** Policy Index, 46 percent DJ Wilshire 5000, 18 percent Lehman Aggregate, 20 percent MSCI ACWI ex–US, eight percent NCREIF Property Index, five percent CSFB Dev. Countries HY, three percent DJ Wilshire 5000 + five percent

Time Weighted methodology, based upon market values, is used when calculating performance

Investment Consultants and Money Managers

Investment Consultants

Wilshire Associates
The Townsend Group

Investment Managers—Private Equity

Abbott Capital Management, LLC
Adams Street Partners
Alpha Capital Partners Ltd.
Athenian Venture Partners
Blue Chip Venture Partners, LP
Blue Point Capital Partners, LP
Brantley Venture Partners
Chemicals & Materials Enterprise Associates
Harbourvest Partners LLC
Horsley Bridge Partners, LLC
Kirtland Capital Partners
Landmark Equity Partners
Lexington Capital Partners
Linsalata Capital Partners
MV Economic Development, Ltd.
Montauk TriGuard Management Inc.
Morgenthaler Venture Partners
Northgate Capital Group
Park Street Capital
Peppertree Partners, LLC
Primus Venture Partners
Riverside Capital Associates
Wilshire Private Markets, LLC

Investment Managers—Fixed Income

JPMorgan Investment Advisors Inc.
Bridgewater Associates
Lehman Brothers Asset Management LLC
Loomis Sayles & Company LP
MacKay Shields LLC
Prima Capital Advisors, LLC
Quadrant Real Estate Advisors LLC
Western Asset Management

Investment Managers—U.S. Equity

Chicago Equity Partners LLC
Columbia Asset Management
Earnest Partners LLC
Enhanced Investment Technologies, LLC
State Street Global Advisors

Investment Managers—Real Estate

AEW Capital Management
The Blackstone Group
CB Richard Ellis Investors, LLC
Capmark Investments LP
DLJ Real Estate Capital Partners, Inc.
Fremont Realty Capital
Heitman Value Partners
INVESCO Realty Advisors
JP Morgan Investment Management Inc.
LaSalle Investment Management
Lone Star
Lubert–Adler Management Co., LLC
Morgan Stanley
Starwood Capital Group
Stockbridge Real Estate Fund
Prudential Investment Management Inc
The RREEF Funds
Tri Capital Group Inc.
Walton Street Capital LLC
Westbrook Partners, LLC

Investment Managers—International Equity

Acadian Asset Management Inc.
Causeway Capital Management LLC
Pyramis Global Advisors
Thornburg Investment Management Inc.
Wells Capital Management

Schedule of Brokers' Fees Paid For the year December 31, 2006

Broker Name	Fees Paid	Units Traded	Average Cost Per Unit
Citigroup	322,249	44,596,000	0.0072
Goldman Sachs	300,542	40,816,000	0.0074
Merril Lynch	299,544	36,614,000	0.0082
Morgan Stanley	277,349	43,905,000	0.0063
Credit Suisse First Boston	251,824	33,851,000	0.0074
UBS Securities	251,167	27,877,000	0.0090
Deutsche Bank	243,084	23,661,000	0.0103
Instinet	240,349	14,215,000	0.0169
JP Morgan Securities	175,764	13,608,000	0.0129
Lehman Brothers	134,272	14,220,000	0.0094
Investment Technology Group	112,071	5,095,000	0.0220
Bear Stearns	104,113	3,336,000	0.0312
G Trade Services Ltd.	100,186	40,051,000	0.0025
Cowen & Co.	84,190	13,256,000	0.0064
Capital Institutional Services	74,749	3,609,000	0.0207
Liquidnet Inc.	70,948	2,367,000	0.0300
Pershing LLC	65,782	3,604,000	0.0183
Jefferies & Co., Inc.	64,385	3,228,000	0.0199
Credit Agricole Cheuvreux	59,248	1,492,000	0.0397
ABN Amro	58,251	16,686,000	0.0035
Guzman & Co.	55,680	2,917,000	0.0191
Nomura Securities LTD, HK	53,861	3,942,000	0.0137
Weeden	52,216	2,430,000	0.0215
Mizuho Securities	46,577	925,000	0.0504
Daiwa	44,131	3,592,000	0.0123
Rosenblatt Securities Inc	42,320	2,239,000	0.0189
Robert Baird	42,294	1,486,000	0.0285
S. G. Securities– HK	39,243	5,050,000	0.0078
Pacific American Securities	37,195	930,000	0.0400
ING Securities Ltd HK	36,010	5,872,000	0.0061
RBC Capital Markets	32,366	975,000	0.0332
State Street Bank & Trust	29,349	6,034,000	0.0049
Great Lakes Capital Partners	28,855	723,000	0.0399
BancAmerica	28,138	720,000	0.0391
Sanford C. Bernstein	27,163	703,000	0.0386
Dresdner Kleinwort Benson	27,071	2,235,000	0.0121
Brockhouse Cooper Inc.	25,976	9,524,000	0.0027
Banco Santander	23,305	450,000	0.0518
BNY Brokerage Inc.	23,090	690,000	0.0335
Schonfeld Securities	22,445	561,000	0.0400
Brokers Fees Less than $20,000 each	609,460	34,257,000	0.0178
TOTAL	**$4,616,812**	**472,342,000**	**$0.0098**

Investment Policy and Guidelines

I. Introduction

The purpose of this Statement of Investment Policy and Guidelines is to define the framework for investing the assets of the Ohio Police & Fire Pension Fund (OP&F). This Statement is intended to provide general principles for establishing the goals of OP&F, the allocation of assets and the employment of outside asset management. The statutory investment authority of the Board is set forth in Sections 742.11 to 742.113 and sections 742.114, 742.116 of the Ohio Revised Code (ORC), as more fully outlined in this Policy and Guidelines.

The objectives of OP&F have been established in conjunction with a comprehensive review of the current and projected financial requirements. These objectives are:

- To have the ability to pay all benefit and expense obligations when due.
- To maintain the purchasing power of the current assets and all future contributions by maximizing the rate of return on OP&F's assets.
- To achieve and maintain a fully funded status with regard to the accumulated benefit obligation.
- To control the costs of administering OP&F and managing the investments.

In order to achieve these objectives, the Board of Trustees will conduct itself in accordance with ORC Section 742.11, which provides "The Board and other Fiduciaries shall discharge their duties with respect to OP&F solely in the interest of the participants and beneficiaries." These duties shall also be carried out "with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and like aims", as referenced in ORC Section 742.11. All aspects of this statement should be interpreted in a manner consistent with OP&F's objectives. At least annually, the Board shall adopt policies, objectives or criteria for the operation of the investment program.

Investment Policies and Manager Guidelines referenced in this document are not reproduced in their entirety, but the essence of each Policy and Manager Guideline is reflected herein.

II. Definition of Responsibilities

A. Investment Committee/Board of Trustees' Responsibilities

- Establish the strategic investment policy for OP&F (asset allocation) and periodically review policy in light of any changes in actuarial variables and market conditions.
- Select qualified consultants and investment managers to advise on and manage OP&F's assets recognizing the goals set forth in ORC Sections 742.11 and 742.116.
- Monitor and review the performance of selected managers to determine achievement of goals and compliance with policy guidelines.
- Monitor the costs of the investment operations at least annually.
- Review, on a continuing basis, the current Investment Policies of OP&F and make such changes as appropriate.
- Review the annual investment plan prepared by the staff. As conditions warrant, revise the annual investment plan as the year progresses.
- Review and approve or disapprove real estate transactions when required by Board policy.
- Monitor investment activity for compliance with Board policies and adherence by investment managers to strategy and direction.
- Review the overall investment performance to determine whether it meets established benchmarks.
- Evaluate and assign all investment managers to a rating category (except that only the Board may assign categories 4 and P4, termination), as outlined in the Investment Manager Monitoring and Evaluation Policy.
- Review suggested changes or additions to the functions and operations regarding the Investment operations of similar institutional investors.
- Review the proposed Investment department annual operating budget and report its recommendations to the Finance Committee.

B. Staff Responsibilities

- Manage OP&F assets under its care, custody and/or control in accordance with the Investment Policy Statement objectives and guidelines set forth herein.
- Monitor both internally and externally managed assets to ensure compliance with guidelines set forth in this policy statement.
- Promptly vote all proxies and related actions in a manner consistent with OP&F's long–term interests and objectives set forth herein. Maintain detailed records of said voting of proxies and related actions and comply with all regulatory objectives related thereto.
- Report to the Board quarterly regarding the status of the portfolio and its performance for various time periods. Meet with the Board at least annually to report on their performance and compliance with goals and objectives.
- Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire Investment Policy Statement set forth herein, and as modified in the future.

C. Investment Consultants' Responsibilities

- Provide independent and unbiased information
- Assist in the development of Investment Policy Statement
- Monitor compliance with Investment Policy Statement
- Assist in the development of strategic asset allocation targets
- Assist in development of performance measurement standards
- Monitor and evaluate manager performance on an ongoing basis
- Conduct due diligence when a manager fails to meet a standard
- Establish a procedural due diligence search process
- Conduct manager searches when needed for policy implementation

D. Investment Managers' Responsibilities

- Manage OP&F assets under its care, custody and/or control in accordance with the Investment Policy Statement objectives and guidelines set forth herein and its governing agreement with OP&F.
- Exercise full investment discretion over the assets in their care within the guidelines set forth in this policy statement and the specific guidelines established for the manager in the governing agreement with OP&F.
- Promptly inform the Board and staff in writing regarding all changes of a material nature pertaining to the firm's organization and professional staff.
- If directed, promptly vote all proxies and related actions in a manner consistent with OP&F's long–term interests and objectives set forth herein. Each manager designated to vote shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto.
- Report to the Board quarterly regarding the status of the portfolio and its performance for various time periods. Meet with the Board at least annually to report on their performance and compliance with goals and objectives.
- Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire Investment Policy Statement set forth herein, and as modified in the future.

III. Asset Allocation

It is the responsibility of the Board to determine the allocation of assets among distinct capital and private markets. The allocation will be completed in a manner consistent with commonly recognized financial principles. Application of these principles is expected to lead to a portfolio with the highest level of return consistent with the risk tolerance of OP&F.

The procedure for determining the allocation will consider the relevant characteristics of the liabilities and potential assets of OP&F. The liability considerations shall include, but not be limited to, current and expected future values of the benefits, contributions and total assets. These factors are important for identifying the investment horizon of OP&F and its cash flow requirements. The asset characteristics considered shall include, but not be limited to, the potential return relative to the potential risk.

The asset allocation must be consistent with the investment standards specified in ORC Section 742.11.

Based on an asset allocation and liability study, which analyzed the expected returns of various asset classes, projected liabilities and the risks associated with alternative asset mix strategies, the Board has established the following asset allocation:

Asset Class	Target Allocation (%)	Range (%)
Domestic Equity	46	± 5
Non–U.S. Equity	20	± 3
Fixed Income	18	± 2
High Yield	5	± 2
Real Estate	8	± 2
Private Equity	3	± 2
Cash Equivalents	0	+ 0.5
TOTAL	**100%**	

The study has shown that this is a favorable asset mix for meeting longer–term goals under both good and bad market conditions.

The asset allocation represents a long term strategy. Short term market shifts may cause the asset mix to drift from the allocation targets. Should the target percentage fall out of the indicated range for a particular asset class, the Board will cause the staff and investment manager(s) to rebalance from the over–allocated class to the under–allocated class.

IV. PERFORMANCE EXPECTATIONS

The most important expectation is the achievement of results consistent with this Policy Statement and the analysis set forth in the asset allocation study of October 2004. A long term four percent annualized real rate of return (net of inflation as measured by the Consumer Price Index) is a reasonable expectation in light of this policy. Long term is defined as a market cycle (generally 3–5 years).

OP&F shall also strive to achieve a long–term rate of return, which is equal to or greater than the actuarial rate assumption. The Board expects the total fund to rank in the top half of a comparable public fund universe over the long–term.

OP&F shall attempt to achieve these return goals without unnecessary risk to principal. The risk/return characteristics of OP&F shall be reviewed on a periodic basis (no less than every five years) through a comprehensive asset allocation and liability study. The goal of the study shall be to formulate a portfolio which maximizes return while minimizing overall risk through the most efficient combination of legal asset classes.

V. Investment Implementation

The implementation of an investment portfolio designed to achieve the above objectives must be consistent with governing statutes as specified in Sections 742.11 to 742.113, 742.114, 742.116 and with the Ohio–Qualified Investment Manager Policy and the Ohio–Qualified Broker Policy.

Where appropriate, OP&F will invest assets through the use of qualified investment managers. The allocations to these managers will be made in accordance with the results of the Asset Allocation process and established procedures.

The Board, in conjunction with the Investment Consultant, will establish specific search procedures, including the specification of minimum criteria for the selection of new qualified investment managers, to implement the strategic asset allocation plan. Among the criteria to be used for screening purposes will be assets managed, manager style, track record, staff, communication, fees, risk/reward statistics, etc. All managers, with the exception of emerging management firms that may warrant specialized criteria, must meet the criteria established by the Board. The Investment Manager Search Policy is included later in this Policy as Section XI.

The Board shall give equal consideration to minority owned and controlled firms and firms owned and controlled by women which otherwise meet the criteria established by the Board. Ohio based firms shall also be given consideration, providing that specified criteria are met and such firm offers quality, services, and safety comparable to other investment managers otherwise available to the Board.

VI. Specific Guidelines

A. Domestic Equity

Investment Objectives

Total return of the domestic equity composite portfolio should exceed the return of the Dow Jones Wilshire 5000 Index over a three–year period on an annualized basis. Total return of each manager's portfolio should rank above the median when compared to their peer group over a three–year period on an annualized basis and should exceed their benchmark return as specified in each manager's guidelines.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the Ohio Revised Code Sec. 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. The main focus of investing will be on companies headquartered and/or domiciled in the United States.
2. The composite portfolio shall have similar portfolio characteristics as that of the Dow Jones Wilshire 5000 Index. Each individual manager's portfolio shall have similar characteristics to the manager's style benchmark.
3. For diversification purposes, each manager's portfolio has a maximum threshold for the amount of cash and individual security weightings that may be held at any one time. Each manager's portfolio is also required to hold a minimum number of issues.
4. Trading shall be left to the discretion of the investment manager with the exception that OP&F may direct a reasonable amount of commissions to help defray qualified Fund expenses.
5. The ability to purchase private placements, Rule 144A stock and purchase securities on margin is prohibited.

Investment Structure

The domestic equity allocation will have a target of forty–six percent (46 percent) of total fund assets. The structure of the domestic equity allocation will be diversified among passive and active capitalization managers as follows:

1. Passive Large Capitalization Core Exposure
   The passive large capitalization core component has a target allocation of thirty–seven and one–half percent (37.5 percent) of the domestic equity allocation. This is an index fund portfolio intended to provide broad market exposure for and diversification to OP&F's equity portfolio through holdings in large capitalization equities and is to be constructed so as to match the characteristics and return of the Russell 1000 Index.
2. Active Large Capitalization Core Exposure
   The active large capitalization core component has a target allocation of sixteen and one–half percent (16.5 percent) of the domestic equity allocation. The overall objective is to provide risk–adjusted returns greater than the return of the Russell 1000 Index. This exposure will be intended to provide diversification to OP&F's passive large capitalization core exposure.
3. Active Large Capitalization Alpha Transfer Exposure
   The active large capitalization alpha transfer component has a target allocation of twenty–one percent (21.0 percent) of the domestic equity allocation. The overall objective is to provide risk–adjusted returns greater than the return of the Standard & Poor's 500 Index. S&P 500 market exposure, obtained through the use of derivatives, will be combined with strategies that represent diversified sources of alpha with a broad range of risk characteristics. For a complete description of the appropriate use of derivatives, please see OP&F's Derivatives Policy Statement.
4. Active Small/Mid Capitalization Core Exposure
   The active small/mid capitalization core component has a target allocation of twenty–five percent (25.0 percent) of the domestic equity allocation. The diversification of the equity base into small/mid capitalization companies will lower overall portfolio risk while providing the opportunity for enhanced returns by exploiting the inefficiencies in this segment of the marketplace. This component shall consist of several complementary managers.

B. Non–U.S. Equity

Investment Objectives

Total return of the Non–U.S. equity composite portfolio should exceed the return of the Morgan Stanley Capital International All Country World Index ex–US (MSCI ACWI–ex U.S.) over a three–year period on an annualized basis. Total return of each manager's portfolio should rank above the median when compared to their peer group over a three–year period on an annualized basis and should exceed their benchmark return as specified in each manager's guidelines.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the ORC Sec. 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. The main focus of investing will be companies headquartered or domiciled in the MSCI ACWI–ex–U.S. countries.
2. The composite portfolio shall have similar portfolio characteristics as that of the MSCI ACWI–ex U.S. Each manager's portfolio shall have similar characteristics to the manager's style benchmark.
3. For diversification purposes, each manager's portfolio has a maximum threshold for the amount of cash and individual security weightings that may be held at any one time.
4. While the geographic and economic sector diversification will be left to the manager's discretion, each manager's portfolio shall be appropriately diversified with the manager's stated investment approach.
5. Trading shall be left to the discretion of the investment manager. OP&F may direct a reasonable amount of commissions to help defray qualified Fund expenses.
6. The ability to leverage the portfolio, sell securities short and purchase securities on margin is prohibited.
7. The use of swaps and the ability to purchase any type of unlisted security for which there is not a public market is prohibited.
8. The investment managers may enter into forward exchange or futures contracts on currency provided that use of such contracts is designed for defensive purposes.

Investment Structure

The Non–U.S. equity allocation will be managed solely on an active basis in order to exploit the perceived inefficiencies in the Non–U.S. equity markets. The Non–U.S. equity allocation will have a target of twenty percent (20 percent) of total fund assets. This allocation may be satisfied with any combination of ACWI–ex US, EAFE and Emerging Market managers.

C. Fixed Income

1. Investment Grade

Investment Objectives

Total return of the investment grade fixed income composite portfolio should exceed the return of the Lehman Aggregate Index over a three–year period on an annualized basis. Total return of each manager's portfolio should rank above the median when compared to their peer group over a three–year period on an annualized basis and should exceed their benchmark return as specified in each manager's guidelines.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the ORC Sec. 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. The main focus of investing will be on dollar denominated fixed income securities. Non–U.S. dollar denominated securities are prohibited.
2. The composite portfolio as well as each manager's portfolio shall have similar portfolio characteristics as that of the Lehman Aggregate Index.
3. Issues must have a minimum credit rating of BBB– or equivalent at the time of purchase.
4. Each manager's portfolio has a specified effective duration band.
5. For diversification purposes, sector exposure limits exist for each manager's portfolio. In addition, each manager's portfolio will have a minimum number of issues.
6. Each manager's portfolio has a maximum threshold for the amount of cash that may be held at any one time.
7. Each manager's portfolio must have a dollar–weighted average quality of A or above.

Investment Structure
The investment grade fixed income allocation will be managed solely on an active basis in order to exploit the perceived inefficiencies in the investment grade fixed income markets and will have a target of twelve percent (12 percent) of total fund assets. For diversification purposes, the allocation will be divided between at least two active managers.

2. Global Inflation Protected Securities (GIPS)

Investment Objectives
Total return of the GIPS composite portfolio should exceed the return of a custom weighted–average mix of the Barclays country indexes within the Global Inflation–Linked Bond Index over three–year period on an annualized basis. Total return of each manager's portfolio should exceed their benchmark return as specified in each manager's guidelines.

Investment Guidelines & Characteristics
Assets eligible to be managed in this class of investments will be found in the ORC Sec. 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. Permitted countries include any country issuing Inflation Linked bonds with a sovereign local currency credit rating (S&P) of A– or better.
2. The net exposure to individual countries may vary between a specified duration band.
3. The net duration of each manager's portfolio may vary between a specified duration band.
4. No active foreign currency exposure is permitted. All foreign currency exposure must be fully hedged back to the USD.
5. Nominal U.S. Treasury bonds may be used as a substitute for Inflation Linked bonds up to a stated maximum amount. Non–U.S. nominal bonds may not be purchased.
6. The ability to leverage the portfolio, purchase securities on margin, purchase Rule 144A securities or private placements is prohibited.
7. The ability to purchase equity instruments or any securities that may convert to equity is prohibited.

Investment Structure
The GIPS allocation will be managed solely on an active basis in order to exploit the perceived inefficiencies in Inflation Protected Securities markets and will have a target of six percent (6 percent) of total fund assets.

3. Commercial Mortgages

Investment Objective
Total return of the commercial mortgage composite portfolio should equal a real rate of return of four percent, net of investment management fees, over rolling ten–year periods. The Board of Trustees has determined that inclusion of commercial mortgage investments secured by real estate, may, depending on market circumstances, enhance the risk/return characteristics of OP&F.

Investment Guidelines & Characteristics
Assets eligible to be managed in this class of investments will be found in the ORC Sec. 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. The main focus of investing will be on commercial mortgage whole loans which provide for fixed income payments derived from underlying property cash flows.
2. Risk shall be controlled through diversification strategies and the retention of qualified managers with acceptable loan underwriting and/or commercial mortgage acquisition experience.

Investment Structure
The commercial mortgage allocation will be managed solely on an active basis in order to exploit the perceived inefficiencies in the commercial mortgage market. The commercial mortgage allocation will have a target of zero percent (0 percent) of total fund assets but will allow for up to a two percent (2 percent) allocation, which shall be included within the Fixed Income allocation. OP&F will utilize commingled fund investments to manage its commercial mortgage allocation.

D. High Yield

Investment Objectives

Total return of the high yield fixed income composite portfolio should exceed the return of the CS First Boston High Yield Index, Developed Countries Only over a three–year period on an annualized basis. Total return of each manager's portfolio should rank above the median when compared to their peer group over a three–year period on an annualized basis and should exceed their benchmark return as specified in each manager's guidelines.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the ORC Sec. 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. The main focus of investing will be on fixed income securities issued by U.S. corporations. Non–U.S. dollar denominated securities are prohibited.
2. The composite portfolio as well as each manager's portfolio shall have similar portfolio characteristics as that of the CS First Boston High Yield Index, Developed Countries Only.
3. Issues must have a minimum credit rating of CCC or equivalent at the time of purchase.
4. Each manager's portfolio will be diversified by economic industry.
5. Each manager's portfolio has a maximum threshold for the amount of cash that may be held at any one time.
6. Purchased issues must meet the minimum original issue size as stated in each manager's investment guidelines.
7. Each manager's portfolio must have a dollar–weighted average quality of B–/B3 or above.

Investment Structure

The high yield fixed income allocation will be managed solely on an active basis in order to exploit the perceived inefficiencies in the high yield markets and to minimize the probability of exposure to securities in default. The high yield fixed income allocation will have a target of five percent (5 percent) of total fund assets.

E. Real Estate

Investment Objectives

Total return of the real estate composite portfolio should exceed, prior to investment advisor fees, the NCREIF Property Index by 100 basis points measured over rolling three–year periods. The role of real estate in OP&F's portfolio is to provide an inflation hedge and a return that negatively correlates with stock and bond returns, thereby reducing the volatility and risk of the total portfolio. Real estate must also provide a total return that is competitive on a risk–adjusted basis with stocks and bonds.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the ORC Sec. 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. The main focus of investing will be on core properties (i.e., operating, substantially leased, well located, institutional quality in the traditional property types which include office, apartment, retail and industrial). OP&F will opportunistically make investments in non–core, institutional quality properties (i.e., hotels, senior housing, etc.) to capture superior risk–adjusted returns caused by imbalances in the real estate and capital markets.
2. For diversification purposes, properties will be diversified by type, location and size of investment and by advisor.
3. Leverage will be utilized only if acceptable debt service coverage, loan to value ratios and other protection can be provided.

Investment Structure

The real estate allocation will have a target of eight percent (8 percent) of total fund assets. The real estate allocation will be managed solely on an active basis in order to exploit the perceived inefficiencies in the real estate market. OP&F will utilize both separately managed accounts and commingled funds to manage its allocation to real estate. OP&F's preferred investment vehicle is a separate account because it affords OP&F the highest degree of control over its investments. OP&F also prefers to own 100 percent of each core property investment. Commingled fund investments will be made to allow OP&F to invest in higher return, higher risk assets and in extraordinarily large properties.

F. Private Equity

Investment Objective

Total return, net of fees, of the private equity composite portfolio should exceed the Wilshire 5000 by 300 basis points calculated over a rolling ten–year period. Returns shall be calculated on a time–weighted rate of return basis. Each partnership should rank in the top quartile when compared to their vintage year peer group. Returns for each partnership shall be calculated on an internal, or dollar–weighted, rate of return basis. The private equity allocation is designed to provide an attractive risk–adjusted rate of return to OP&F.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the ORC Sec. 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. For diversification purpose, OP&F will seek to maintain exposure to the following private equity asset classes as such: 30–50 percent venture capital, 45–70 percent buyouts and 0–10 percent distressed debt/others.
2. OP&F will seek to maintain geographic diversification as such: 75–100 percent U.S. and 0–25 percent Non–U.S.
3. OP&F will seek to maintain stage, vintage year, capitalization and industry diversification within the private equity composite portfolio.
4. OP&F shall not invest in any individual partnership in which the capital commitment of the general partner is not equal to or greater than one percent of the total capital committed at the time of the final closing of the partnership. OP&F shall not invest in any fund of funds in which the capital commitment of the general partner does not represent a significant commitment in relation to the financial circumstances of the general partner.
5. The maximum and minimum percentage interest and dollar amount of total capital committed for each partnership and fund of funds at the time of the final closing is as follows:

Partnerships		
Guideline	Min	Max
Percentage Interest	n/a	10%
Dollar Amount	$5mm	n/a
Fund of Funds		
Guideline	Min	Max
Percentage Interest	n/a	15%
Dollar Amount	$10mm	n/a

The minimum dollar amount shall not apply to individual partnerships or fund of funds which, due to over–subscription, choose to limit our capital commitment to less than $5 and $10 million, respectively.

Investment Structure

The private equity allocation will have a target of three percent (3 percent) of total fund assets. OP&F may utilize any of the following types of vehicles in implementing our private equity strategy: fund of funds, partnerships, limited liability companies or group trusts. OP&F may also participate in secondary offerings or purchase private equity placements from other investors on the secondary market. Individual partnerships will be used on an opportunistic basis and will either be partnerships also held by one of our fund of funds or partnerships with a significant presence in the state of Ohio. Significant presence will be defined as having a fully operational office within the state comprised of at least two investment professionals, one of which is a managing member of the general partner.

G. Cash Equivalents

Investment Objective

Total return of the portfolio should exceed the 91–day U.S. Treasury Bill rate of return over rolling twelve–month periods. To provide effective cash management when investing cash balances, emphasis is placed on the protection of principal through the purchase of higher quality money market instruments, while at the same time attempting to achieve the highest available return.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the ORC Sec. 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. Authorized investments include: commercial paper rated A2/P2 or better, repurchase agreements, reverse repurchase agreements, agency discount notes and U.S. Treasury Bills. Repurchase agreements and reverse repurchase agreements shall be limited to instruments of the Fund's domestic sub–custodian bank. Certificates of deposit and banker's acceptances may also be purchased. All obligations shall mature within two hundred seventy days of the date of purchase.
2. Credit reviews of approved issuers of commercial paper shall be performed on a regular basis, but no less than every six months for issuers rated A1/P1 and every three months for issuers rated A2/P2 or split rated.

3. Total holdings of commercial paper in any one industry shall not exceed the greater of 0.50 percent of the total fund assets or $50 million.
4. Repurchase agreements and reverse repurchase agreements shall be limited to the greater of $50 million or 0.70 percent of total fund assets.
5. Agency discount notes and U.S. Treasury bills shall have no exposure limits.
6. Commercial paper exposure limits shall be based upon credit rating and current outlook as described in OP&F's Short Term Cash Management Policies and Guidelines.

Investment Structure

Cash or cash equivalents have a target allocation of zero percent (0 percent) of total fund assets but will allow for up to one–half percent (0.5 percent) allocation. Investment staff is responsible for the cash management function.

VII. Proxy Voting

OP&F's Board of Trustees believes that common stock proxies are valuable and should be voted in the long–term interests and objectives of the Plan set forth herein. Common stock proxies may be executed by the Sr. Investment Officer or the Chief Investment Officer, or their designees, and by designated outside money managers. Staff or any manager that exercises a proxy vote shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto and the policies set forth in the Board's "Proxy Voting Policy Statement." The internal staff shall provide a semi–annual summary report of proxy voting actions to the Investment Committee/Board of Trustees.

VIII. Securities Lending

The investment objective for the securities lending program is to generate incremental income within a high quality investment program that safeguards the return of principal, maintains adequate daily liquidity, ensures diversification and tightly controls exposure to fluctuating interest rates. The program may be operated by a bank trustee or a third party lending agent. Marking to market shall be performed daily and a minimum of 102 percent collateral shall be diligently maintained. Securities lending reports shall be provided monthly by the agent to the staff. Staff will present a semi–annual summary report to the Investment Committee/Board of Trustees.

IX. Investment Manager Monitoring And Evaluation Policy

The purpose of the OP&F Investment Manager Monitoring and Evaluation Policy is to establish the process and discipline for managing the investment manager relationship. The policy states the process, responsibilities and important factors for consideration in the monitoring and evaluation process.

The successful monitoring and evaluation of managers depends on synthesizing a multi–faceted array of investment factors, including historical data and forward looking characteristics that are often linked. The process must also examine the investment manager's business capabilities and ability to attract and retain investment and support professionals. The Policy seeks to examine all material information about OP&F's investment managers that may materially impact the relationship and investment objectives of the Board.

OP&F will consider, but not be limited to, the following factors in monitoring and evaluating its investment managers:

A. Stability and experience of firm in the investment product;

1. Stability of the firm, as measured by the quality of the organizational structure of the firm; the existence of, or potential for, significant developments in the firm; and the expected financial stability of the firm.
2. Experience of the firm in providing investment management services to similar institutional investors, as measured by the firm's history of providing such services.
3. Ownership of the firm, as measured by the depth and structure of the incentive programs and the ownership type for key investment professionals in the subject product.
4. Firm commitment to improvement as measured by whether or not there is a clear business plan/strategy, reinvestment in the firm with an overall commitment for enhancements/improvements.
5. Adverse organizational issues, as measured by the existence of litigation or other investigations; and the existence of financial problems.

B. Quality, stability, depth and experience of investment professionals;

1. Experience of portfolio manager(s) in providing similar services to similar institutional investors, as measured by the length of time the portfolio manager(s) has served as a portfolio manager to such investors; demonstrated expertise in providing such services to other such investors.
2. Stability of the firm's professional base, as measured by personnel turnover.
3. Depth of personnel, as measured by the firm's account/portfolio manager and account/investment management personnel ratios; and back–up procedures for providing services to OP&F in the absence of the portfolio manager(s).

C. Client service and relationships;

1. Assets under management, as measured by the amount in the subject product as well as the experience of managing other similar asset class products.
2. The similarity of a firm's clients to OP&F, as measured by the amount of institutional tax–exempt assets under management and the size of the individual accounts currently under management.
3. Stability of the firm's client base, as measured by the number of accounts gained or lost.
4. Procedures for client contact, timely reporting, compliance monitoring, reconciliation process with OP&F's custodian and responsiveness to reporting data and formatting requirements.

D. Investment philosophy and process;

1. Defined philosophy and process implementation, as measured by whether the philosophy is effectively communicated and what the process is and why it works. It should be identified as to whether the process is based on sound research and whether or not they are focusing on temporary or permanent inefficiencies in the market.
2. Portfolio construction process, as measured by whether or not the manager is benchmark oriented such that there are distinct portfolio objectives and on–going monitoring relative to these objectives. It should be identified as to whether the process contains risk controls, and if so, are they part of a disciplined process and who is performing the monitoring.
3. Research, as measured by whether there are appropriate resources given the product style, whether the research performed is qualitative or quantitative, and whether or not there are separate research departments by product type or one fully integrated research staff.
4. Sources of information, as measured by whether the data used in the process is collected and/or assimilated by outside organizations or generated internally and how the information is processed and interpreted.

E. Investment performance and risk control;

1. The investment manager's alpha for active managers and tracking error for passive managers relative to the target benchmark. Active managers will also be expected to rank in the top half of managers with similar objectives over a three to five year period, if available. Additional focus will be placed on return/risk ratios and information ratios which incorporate both absolute and manager specific risk.

F. Investment fees;

1. Investment management fees shall be competitive and of an appropriate structure for the product type and assets under management.

Monitoring Responsibilities

It is important for the roles of the participants in the implementation of this Policy be clear and delineated. The following is intended as a guide to reflect the overall framework for the participants in the process. Participant responsibilities may vary from time to time.

Investment Committee/Board of Trustees

Responsible for the overall management of OP&F and investment manager relationship. Staff and consultant will provide the Board with periodic updates on the investment structure, overall investment manager performance and compliance with guidelines. Also responsible for the overall management of OP&F's investment program. This shall include ongoing review of the asset allocation plan, investment structure, investment performance and other related issues. The Committee/Board shall be responsible for approving investment policies and procedures and shall assign investment managers to a monitoring category (except that only the Board may assign categories 4 and P4, termination).

Staff

Responsible for the day–to–day management of this Policy and the investment manager relationship, including investment reporting and investment guideline compliance. Staff will report all material manager issues to the consultant for review and to the Board for its consideration.

Investment Consultant

Responsible for assisting the staff and Board in establishing strategic investment policy and strategy. The consultant will monitor the consistency of investment manager mandates with the investment objectives, investment manager guidelines and will prepare quarterly performance measurement reports. The consultant will report all material investment manager issues to the staff and Board.

Investment Manager

Responsible for managing the investment portfolio within the objectives and guidelines established by the Board. The investment manager is responsible for self–monitoring of the portfolio and notifying the staff when there are any deviations from the guidelines and when modifications to the guidelines may be appropriate. The investment manager is responsible for the quality and timeliness of its reporting, including the reconciliation of its portfolio with OP&F's custodian.

Frequency Of Monitoring

The investment manager's performance, risk and portfolio characteristics will be monitored on a monthly/quarterly basis, or more frequently, and will be evaluated relative to the Board approved investment manager guidelines and objectives.

Manager Monitoring Conclusions

The Board seeks long term and successful relationships with its investment managers. The monitoring process is intended to ensure the success of the relationship. All investment managers will be assigned, as noted above, to one of the following categories, which will be reviewed by the Investment Committee/Board of Trustees at least annually:

1. Retain the investment manager with no material changes in the relationship;
2. Retain the investment manager with issues of a material nature to be noted and monitored on a regular basis;
3. Retain the investment manager and place on probation with specific material issues identified and a plan and time period developed to resolve issue; and
4. Terminate the investment manager relationship and redeploy the assets.

Where potentially material and adverse issues arise in OP&F's current investment manager relationships, the Investment Committee/Board of Trustees will review the issues and may re–assign the manager to another category in the case of 1–3 rating. The assignment of a 4 rating must be approved by the Board.

Once a manager has been downgraded, they may not be upgraded for at least six months. During this time period the reasons for the rating downgrade will be evaluated thoroughly by the staff and the manager's progress on their corrective action plans will be followed. Although managers will be prohibited from obtaining a rating upgrade within six months of a rating downgrade, a manager may be further downgraded or recommended for termination at any time.

In conjunction with the annual manager evaluation conducted by the staff and the Investment Committee/ Board of Trustees, the following review schedule will be followed for managers rated either a '2' or '3':

'2'—The staff and the Investment Committee/ Board of Trustees will review manager performance and the issues which resulted in the rating downgrade at least every six months until the rating has been upgraded to a '1'. Further downgrading to a '3' will result in the review schedule noted below:

'3'—Due to the severity of this rating, quarterly reviews will be conducted of managers rated a '3'.

When deemed necessary by the staff or Investment Committee/Board of Trustees, managers will be requested to attend these reviews.

In the case of investment managers or general partners who act as managers of private, essentially non–marketable, investment vehicles such as private equity and commingled real estate investment funds, all investment managers will be assigned, as noted above, to one of the following categories which will be reviewed by the Investment Committee/Board of Trustees at least annually:

P1. The investment manager may be considered for future assignments.

P2. The investment manager has specific material issues which need to be resolved before the manager may be considered for future assignments.

P3. The investment manager may not be considered for future assignments.

P4. Removal of the investment manager or sale of our interest should be actively pursued and acted upon if in the best interest of OP&F.

Where potentially material and adverse issues arise in OP&F's current investment manager relationships, the Investment Committee/Board of Trustees will review the issues and may re–assign the manager to another category in the case of a P1–P3 rating. The assignment of a P4 rating must be approved by the Board.

Termination Of An Investment Manager

The Board will review the adverse material issues and circumstances prior to terminating an investment manager. The major issues to consider will include:

- Longer term prospects of the investment manager in correcting the issue;
- Potential changes in the relationship;
- The cost of termination;
- Replacement alternatives; and
- How the investment manager's assets will be redeployed.

Manager Due Diligence Visits

The staff will meet with those investment managers whose performance falls below the 70th percentile relative to their peers for all of the following: current quarter; year–to–date; and trailing one year time periods. The staff will also meet with investment managers for non–performance issues that are material to the relationship, including but not limited to: firm or investment product stability, key professional turnover, client service and investment reporting.

X. Communications

Each manager will provide hard copy reports at least quarterly, including performance measurement, asset inventories, transaction summaries, market commentary or anything else deemed significant at the time of reporting. Each manager is expected to meet with OP&F's Board at least annually, unless notified otherwise.

XI. Investment Manager Search Policy

The selection of investment managers will be conducted only under a Request for Proposal (RFP) process that will consider the following issues:

A. The investment strategy for the manager search will be considered within the strategic asset allocation plan, investment structure and other applicable investment policies and procedures approved by the Board, including the Ohio–Qualified Investment Manager Policy.

B. The RFP minimum criteria will be consistent with the search investment strategy and will be established by the Investment Committee/Board of Trustees of Trustees, with the assistance of staff and the investment consultant. The selection criteria may include such items as:
   1. Stability and experience of firm in the investment product;
      a. Stability of the firm, as measured by the quality of the organizational structure of the firm; the existence of, or potential for, significant developments in the firm; and the expected financial stability of the firm.
      b. Experience of the firm in providing investment management services to similar institutional investors, as measured by the firm's history of providing such services.
      c. Ownership of the firm, as measured by the depth and structure of the incentive programs and the ownership type for key investment professionals in the subject product.
      d. Firm commitment to improvement as measured by whether or not there is a clear business plan/strategy, reinvestment in the firm with an overall commitment for enhancements/improvements.
      e. Adverse organizational issues, as measured by the existence of litigation or other investigations; and the existence of financial problems.
   2. Quality, stability, depth and experience of investment professionals;
      a. Experience of portfolio manager(s) in providing similar services to similar institutional investors, as measured by the length of time the portfolio manager(s) has served as a portfolio manager to such investors; demonstrated expertise in providing such services to other such investors.
      b. Stability of the firm's professional base, as measured by personnel turnover.
      c. Depth of personnel, as measured by the firm's account/portfolio manager and account/investment management personnel ratios; and back–up procedures for providing services to OP&F in the absence of the portfolio manager(s).
   3. Client service and relationships;
      a. Assets under management, as measured by the amount in the subject product as well as the experience of managing other similar asset class products.
      b. The similarity of a firm's clients to OP&F, as measured by the amount of institutional tax–exempt assets under management and the size of the individual accounts currently under management.
      c. Stability of the firm's client base, as measured by the number of accounts gained or lost.
      d. Procedures for client contact, timely reporting, compliance monitoring, reconciliation process with OP&F's custodian and responsiveness to reporting data and formatting requirements.
   4. Investment philosophy and process;
      a. Defined philosophy and process implementation, as measured by whether the philosophy is effectively communicated and what the process is and why it works. It should be identified as to whether the process is based on sound research and whether or not they are focusing on temporary or permanent inefficiencies in the market.
      b. Portfolio construction process, as measured by whether or not the manager is benchmark oriented such that there are distinct portfolio objectives and on–going monitoring relative to these objectives. It should be identified as to whether the process contains risk controls, and if so, are they part of a disciplined process and who is performing the monitoring.
      c. Research, as measured by whether there are appropriate resources given the product style, whether the research performed is qualitative or quantitative, and whether or not there are separate research departments by product type or one fully integrated research staff.
      d. Sources of information, as measured by whether the data used in the process is collected and/or assimilated by outside organizations or generated internally and how the information is processed and interpreted.

5. Investment performance and risk control;
   a. The investment manager's alpha for active managers and tracking error for passive managers relative to the target benchmark. Active managers will also be expected to rank in the top half of managers with similar objectives over a three to five year period, if available. Additional focus will be placed on return/risk ratios and information ratios which incorporate both absolute and manager specific risk.
6. Investment fees;
   a. The total cost of performing investment advisory services as measured by the Fee Proposal based on a total account size. The managers in the search will be evaluated relative to each other as well as to a representative peer universe.

C. The search may be on a closed or open manager universe basis. Closed universe searches shall be used only in circumstances where an expedited process is required to avoid material harm to OP&F or where there is approval to reconsider the finalists of a prior search concluded within the preceding two years, by an affirmative vote of at least 75 percent of the members of the Board of Trustees who have been elected or appointed and are serving on OP&F's Board at the time of the meetings. The retention of a manager in a closed universe search shall be subject to a due diligence review by the Investment Committee/Board of Trustees, staff and consultant. When reopening a prior search, due diligence shall be performed on those managers constituting the finalists of the original search.

D. RFPs will be sent to managers identified as likely to meet the stated qualifications and to those requesting the RFP in an open universe search. An advertisement will be placed in an investment industry or national business publication in open universe searches. In addition, as required by the statute, OP&F will provide public notice of an open universe search along with the search criteria through an advertisement issued in an industry publication and/or by a posting on OP&F's Web site. In closed universe searches, the Investment Committee/Board of Trustees shall approve all potential candidates with the assistance of the staff and consultant.

E. Staff and the Board's investment consultant will review all timely submitted RFPs to ensure that all search criteria have been met.

F. Staff and the Board's investment consultant will evaluate all RFPs having met established criteria and produce written reports summarizing the findings and manager rankings to the Investment Committee/Board of Trustees.

G. The Investment Committee/Board of Trustees will consider the staff and consultant reports as well as other material information when determining the list of managers for finalist interviews.

H. The Investment Committee/Board of Trustees will interview and evaluate the finalists with the assistance of staff and the investment consultant.

I. The staff, investment consultant and/or Investment Committee/Board of Trustees may conduct a due diligence visit with the finalists.

J. The Board may approve, fail to approve or modify the amount and/or timing of funding, investment guidelines and fees of the approved managers.

XII. Review Procedures

In addition to the regular performance reviews, the Board in conjunction with its consultant will review this policy statement at least once a year to determine if revisions are warranted.

It is not expected that investment policy will change frequently, in particular short term changes in the financial markets should generally not require an adjustment in the investment policy.

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The 2006 Comprehensive Annual Financial Report

Actuarial Section

The Ohio Police & Fire Pension Fund

Ohio Police & Fire Pension Fund
140 East Town Street • Columbus, Ohio 43215
www.op–f.org • 800–860–9599

Report of Actuary

buckconsultants
an ACS company

November 14, 2006

Board of Trustees
Ohio Police & Fire Pension Fund
140 East Town Street
Columbus, Ohio 43215

Members of the Board:

This report presents the results of the annual actuarial valuation of the assets and liabilities of the Ohio Police & Fire Pension Fund ("Fund") as of January 1, 2006, prepared in accordance with Chapter 742 of the Ohio Revised Code. The valuation takes into account all of the promised benefits to which members are entitled, including pension and survivor benefits.

The principal results of the valuation do not take into account Medicare Part B premium reimbursements or any other health care benefits. However, at the request of the Ohio Retirement Study Committee (ORSC), supplemental results have been prepared that do take into account Medicare Part B premium reimbursements and are presented in a table in the report.

The valuation was based on the actuarial assumptions and methods as adopted by the Board of Trustees, including a valuation interest rate of 8¼% per annum compounded annually. The assumptions and methods are unchanged from the prior valuation.

The actuarial assumptions and methods comply with the parameters set forth in Governmental Accounting Standards No. 25.

Assets and Membership Data

The Fund reported to the actuary the individual data for members of the Fund as of the valuation date. While we did not verify the data at their source, we did perform tests for internal consistency and reasonableness. The amount of assets in the trust fund taken into account in the valuation was based on statements prepared for us by the Fund. The assets used in the valuation do not include any assets in the health care fund.

Funding Objectives and Progress

The actuary uses an actuarial cost method to determine the portion of the Fund's liabilities accrued by the members as of the valuation date and the portion that is attributable to future years of service. The rate of contribution necessary to systematically fund the future service liabilities, the normal cost rate, is calculated under the cost method to be a level percentage of active member payroll. The portion of the liabilities accrued as of the valuation date, the actuarial accrued liability, is compared to a market–related value of the Fund's assets. The amount of liabilities in excess of the assets is called the unfunded actuarial accrued liability.

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The actuary determines how many years is required by the Fund to completely amortize the unfunded actuarial accrued liability (the funding period), using the member and employer contributions reduced by the amount allocated to health care and the amount of normal cost for the year. For 2006, and each year since 2003, the funding period is infinite years. The infinite funding period is attributable to the less than assumed investment performance of the Fund during the period 2000 through 2002.

Section 742.16 of the Revised Code, as adopted by Senate Bill No. 82, sets forth an objective that the funding period is no more than 30 years. If the funding period exceeds 30 years, a plan shall be developed and presented by the Board of Trustees to reduce the funding period to not more than 30 years by the 2007 plan year. The Board of Trustees presented a plan to the ORSC in April 2006 for the ORSC's consideration.

It should be noted that the funded ratio (i.e., the ratio of actuarial assets to the actuarial accrued liability) determined as of January 1, 2006 is 78.3%, compared to 80.9% determined as of January 1, 2005. Taking into account the Medicare Part B premium reimbursements, the funded ratio would be 76.4%.

Financial Results and Membership Data

The valuation report shows detailed summaries of the financial results of the valuation and membership data used in preparing this valuation. The actuary prepared supporting schedules included in the Actuarial and Statistical Sections of the Ohio Police & Fire Pension Fund Comprehensive Annual Financial Report. The actuary prepared the trend data schedules included in the Financial Section of the Ohio Police & Fire Pension Fund Comprehensive Annual Financial Report.

Qualified actuaries completed the valuations in accordance with accepted actuarial procedures as prescribed by the Actuarial Standards Board. The qualified actuaries are members of the American Academy of Actuaries and are experienced in performing actuarial valuations of public employee retirement systems. To the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice.

Respectfully submitted,

Kim M. Nicholl

Paul R. Wilkinson

Kim M. Nicholl, F.S.A.
Principal and Consulting Actuary

Paul R. Wilkinson, A.S.A.
Director, Consulting Actuary

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Description of Actuarial Assumptions and Methods

Assumptions

Interest Rate

8.25 percent per annum, compounded annually.

Salary Increase

Assumed annual salary increases are as follows:

Years of Service	Salary Increase Rate
1 or less	11.0%
2	9.5%
3	8.5%
4	6.5%
5 or more	5.0%

Withdrawal Rates

The following sample withdrawal rates are based on age and service (for causes other than death, disability, or retirement).

Police

Age	Years of Service										
	0	1	2	3	4	5	6	7	8	9	10+
25	0.02440	0.02440	0.02475	0.02031	0.01745	0.01511	0.01420	0.01384	0.01218	0.01311	0.01311
30	0.02056	0.02056	0.02113	0.02012	0.01824	0.01608	0.01452	0.01355	0.01211	0.01168	0.01168
35	0.02309	0.02309	0.02400	0.02376	0.02158	0.01863	0.01601	0.01405	0.01230	0.01059	0.00959
40	0.03017	0.03017	0.03130	0.03043	0.02715	0.02279	0.01866	0.01532	0.01271	0.00969	0.00590
45	0.04104	0.04104	0.04204	0.03944	0.03458	0.02846	0.02247	0.01742	0.01337	0.00919	0.00311
50	0.05501	0.05501	0.05546	0.05012	0.04339	0.03543	0.02737	0.02041	0.01449	0.00957	0.00299
55	0.07155	0.07155	0.07112	0.06199	0.05322	0.04350	0.03327	0.02436	0.01621	0.01124	0.00737
60	0.09038	0.09038	0.08881	0.07480	0.06390	0.05259	0.04013	0.02931	0.01860	0.01438	0.01438

Firefighters

Age	Years of Service										
	0	1	2	3	4	5	6	7	8	9	10+
25	0.00530	0.00749	0.00864	0.00903	0.00858	0.00749	0.00607	0.00510	0.00453	0.00434	0.00434
30	0.00912	0.00882	0.00824	0.00749	0.00684	0.00632	0.00588	0.00549	0.00515	0.00483	0.00483
35	0.01145	0.00989	0.00866	0.00767	0.00714	0.00699	0.00699	0.00679	0.00631	0.00547	0.00417
40	0.01277	0.01082	0.00978	0.00931	0.00916	0.00923	0.00925	0.00893	0.00799	0.00628	0.00359
45	0.01308	0.01159	0.01161	0.01242	0.01293	0.01307	0.01269	0.01193	0.01022	0.00729	0.00312
50	0.01242	0.01218	0.01412	0.01700	0.01846	0.01851	0.01731	0.01581	0.01302	0.00850	0.00282
55	0.01082	0.01257	0.01728	0.02306	0.02575	0.02557	0.02310	0.02057	0.01640	0.00993	0.00272
60	0.00831	0.01275	0.02109	0.03060	0.03480	0.03423	0.03008	0.02623	0.02038	0.01159	0.00285

Rates Of Disability And Death Before Retirement

Rates of death are based on the 1994 Group Annuity Mortality Table (sex distinct) set back five years for male police officers and seven years for male firefighters and set forward three years for female police officers and female firefighters. The following sample rates apply to active members.

Police Officers

Age	Annual Rate of Death—Male	Annual Rate of Death—Female	Annual Rate of Disability
20	0.034%	0.029%	0.002%
30	0.066%	0.042%	0.124%
40	0.085%	0.088%	0.708%
50	0.158%	0.191%	2.533%
55	0.258%	0.336%	4.270%
60	0.442%	0.668%	6.546%
62	0.558%	0.864%	7.662%
65	0.798%	1.176%	—

Firefighters

Age	Annual Rate of Death—Male	Annual Rate of Death—Female	Annual Rate of Disability
20	0.025%	0.029%	0.004%
30	0.059%	0.042%	0.067%
40	0.085%	0.088%	0.379%
50	0.135%	0.191%	2.939%
55	0.210%	0.336%	5.270%
60	0.358%	0.668%	7.610%
62	0.442%	0.864%	8.530%
65	0.630%	1.176%	—

Occurrence Of Disability

On duty permanent and total	35%
On duty partial	61%
Off duty ordinary	4%

Retirement Rates

The following rates apply to members upon reaching eligibility for retirement.

Annual Rate of Retirement

Age	Police	Firefighters
48	30%	30%
49	20%	20%
50	20%	20%
51	20%	20%
52	20%	20%
53	20%	25%
54	20%	25%
55	20%	25%
56	20%	25%
57	20%	25%
58	20%	25%
59	25%	30%
60	25%	30%
61	25%	30%
62	25%	35%
63	25%	35%
64	25%	35%
65	100%	100%

Drop Retirement Rates

DROP participants are assumed to retire at the retirement rates shown above, with the following exceptions:

Second and third years of DROP	0%
Eighth year of DROP	100%

Retirement Age For Inactive Vested Participants

Commencement at age 48 and 25 years of service from full–time hire date, whichever is later.

Deferred Retirement Option Plan (DROP) Elections

All members who do not retire when first eligible are assumed to elect DROP.

Death After Retirement

According to the 1994 Group Annuity Mortality Table (male only) with one–year set forward for all pensioners. 1994 Group Annuity Mortality Table (female only) with two–year set forward for all beneficiaries. 1994 Group Annuity Mortality Table (male only) for disableds, with six–year set forward for police and five–year set forward for firefighters.

Future Expenses

The normal cost is increased by all administrative expenses budgeted, net of the State Subsidy received from the State of Ohio.

Unknown Data For Members

Same as those exhibited by members with similar known characteristics.

Percent Married

85 percent

Age of Spouse

Females three years younger than males.

Dependent Parents

Costs based upon allowance for mortality (same rates as for beneficiaries), but no specific allowance for change in dependency status.

Dependent Children

Each member is assumed to have two children, born when the member was age 26. Dependency is assumed to cease when the child is 22.

Cola Annuities

Where an election is possible, all members are assumed to elect the COLA annuity. The assumed Consumer Price Index increase is a rate equal to or greater than three percent per year.

Methods

Actuarial Cost Method

Projected benefit method with level percentage entry age normal cost and open–end unfunded accrued liability. Gains and losses are reflected in the accrued liability.

Asset Valuation Method

A five–year moving market average value of assets that spreads the difference between the actual investment income and the expected income on the market value (based on the valuation interest rate) over a period of five years. The actuarial value shall not be less than 80 percent or more than 120 percent of market value.

Payroll Growth

Inflation rate of three percent plus productivity increase rate of one percent.

Cost Of Living

Three percent per annum.

Data

Census And Assets

The valuation was based on members of the Fund as of January 1, 2006 and does not take into account future members. All census and asset data was supplied by the Fund. Assumptions were last reviewed as of January 1, 2002, and are scheduled to be reviewed again on January 1, 2007.

Summary of Benefit and Contribution Provisions

The following is intended to summarize the key provisions valued in this valuation. Members of the Fund and other parties should not rely on this summary as a substitute for or legal interpretation of the laws and rules of the Code covering this retirement plan.

Eligibility for Membership

Immediate upon commencement of employment.

Member Contributions

10 percent of salary.

Normal Service Retirement

Eligibility

Age 48 with 25 years of service.

Benefit

An annual amount equal to a percentage of average annual salary, where the percentage equals 2.5 percent for each of the first 20 years of service, two percent for each of the next five years of service, and 1.5 percent for service in excess of 25 years to a maximum of 72 percent of the average annual salary. Average annual salary means one–third of the total salary during the three years for which the total earnings were greatest.

Special Service Retirement

Eligibility

Age 62 with 15 years of service.

Benefit

Same as the normal service retirement benefit.

Termination Before Retirement with 25 Years Service

Benefit

Same as the normal service retirement benefit, except benefit commences when member reaches age 48.

Termination Before Retirement with 15 Years Service

Benefit

An annual amount equal to a percentage of average annual salary, where the percentage equals 1.5 percent times years of service. Benefit commences at the later of age 48 and 25 years from the date of full–time hire.

Termination Before Retirement with Less Than 15 Years Service

Benefit

A lump sum amount equal to the sum of the member's contributions to the Fund.

Deferred Retirement Option Plan (DROP)

Eligibility

Age 48 with 25 years of service.

Benefit

Member elects to defer retirement and must remain in the DROP at least three years to receive the benefit without penalty, but not more than eight years. At retirement, member receives (1) the normal service retirement benefit determined as of the date he entered the DROP, plus cost–of–living adjustments, and (2) his DROP account balance paid in a lump sum or in installments if the member elects to receive it. Withdrawal is not mandatory due to retirement. Money can remain on account and continue to accrue interest.

The DROP account balance is credited until retirement with the member's retirement benefit amount for the year, adjusted for cost–of–living, plus a portion of the member's contribution for the year, plus interest credited at five percent compounded annually. Annual member contributions are credited to the DROP account based on the following schedule:

Years 1 and 2	50% of member's contribution
Year 3	75% of member's contribution
Years 4–8	100% of member's contribution

If the member terminates employment in the first three years of participating in the DROP, the member forfeits all interest accrued for his benefit. If the member terminates after eight years, the member forfeits all DROP benefits and receives a normal service retirement benefit determined as of his termination date, counting service credit for the DROP participation period.

If the member becomes disabled while participating in the DROP, the member can choose to remain in the DROP or receive a disability benefit if granted, and forfeit all DROP benefits.

If the member dies while participating in the DROP, the member's spouse or beneficiary receives the DROP account balance and a monthly survivor benefit of 50 percent of the benefit the member would have received had the member retired the day before death and elected a 50 percent joint and survivor annuity. (If the member selected a percentage greater than 50 percent, that percentage applies.) All other death benefits apply as well.

Permanent and Total Disability (On Duty)

Eligibility

No age or service requirement.

Benefit

An annual amount equal to 72 percent of average annual salary.

Partial Disability (On Duty)

Eligibility

No age or service requirement.

Benefit

An annual amount determined by the Board, not to exceed 60 percent of average annual salary. If the member has 25 years of service, the amount will be equal to the normal service retirement amount.

Ordinary Disability (Off Duty)

Eligibility

5 years of service.

Benefit

An annual amount determined by the Board, not to exceed 60 percent of average annual salary.

Pre–retirement Death Benefit

Eligibility

Upon death, before retirement but after satisfying eligibility for normal service retirement or age/service commuted retirement.

Benefit

Surviving spouse or contingent dependent beneficiary receives 50 percent of the benefit the member would have received had the member retired on the date of death under the 50 percent joint and survivor annuity form of benefit.

Statutory Death Benefit

Eligibility

Upon death for any active or retired member.

Benefit

The benefit is paid to the surviving spouse for life, and to any surviving children until they reach age 18 (22 if a full–time student) or marry, which ever occurs first, and to any surviving disabled children for life, or until the child has recovered from the disability. If the deceased member leaves no surviving spouse or children, a benefit is paid to any surviving dependent parents during their lifetime or until dependency ceases or until remarriage.

The benefit amount depends on the beneficiary type. The amount is increased each July 1 by three percent of the Base Benefit. The benefit amounts are shown below.

Monthly Benefit Amount

Beneficiary Type	Base	Base Plus Increases Through July 1, 2005	Next Increase Effective July 1, 2006
Spouse	$ 550	$ 644.60	$ 16.50
Child	150	175.80	4.50
Parents			
If one	200	234.40	6.00
If two	100	117.20	3.00

Note: Spouse's benefit is $410 if spouse is receiving a full death benefit under the Death Benefit Fund statute.

Lump Sum Death Benefit

Eligibility

Upon death for any retired or disabled member.

Benefit

A lump sum payment of $1,000.

Optional Forms of Benefit

The standard form of benefit is a life annuity. For married members, the standard form of benefit is an actuarially reduced benefit payable under the 50 percent joint and survivor annuity form, unless the member's spouse provides written consent for a lower survivor benefit.

Retiring members may elect to have actuarially reduced benefits payable under life annuity certain and continuous and joint and survivor annuity forms under certain conditions. Such elections may require spousal consent. Elected options may be canceled within one year after benefits commence, with consent of the beneficiary.

Individuals whose effective date of retirement is on or after October 27, 2006 can select a new multiple beneficiary annuity as their plan of payment. House Bill 98 was passed, and allows up to four beneficiaries at the time of retirement. In the case of voluntary designations, no amount can be designated less than 10 percent. If there is a court order issued prior to the member's retirement requiring that a former spouse be designated as a beneficiary, OP&F must provide for a plan of payment in the amount specified in the court order of the former spouse, in addition to providing for the current spouse.

Gains and Losses in Accrued Liabilities

COLA or Terminal Pay

Members retiring after January 1, 1989, and who have 15 or more years of service as of January 1, 1989, are allowed to select between (1) a pension calculated on the basis of average salary which is increased to reflect terminal pay adjustments, or (2) a pension based on average salary excluding the terminal pay adjustment, but increasing by three percent of the initial pension each retirement anniversary after July 1, 1988. The additive three percent COLA annuity without terminal pay adjustment is the automatic form for active members with less than 15 years of service as of January 1, 1989.

Gains and losses in accrued liabilities resulting from differences between assumed and actuarial experience as of January 1, 2006 and January 1, 2005

Type of Activity	2006	2005
Turnover	$ 39,727,753	$ 25,782,559
If more liabilities are released by withdrawal separations from active membership than assumed, there is a gain. If smaller releases, there is a loss.		
Retirement	11,176,794	(20,068,891)
If members retire at older ages than assumed, there is a gain. If younger, there is a loss.		
Death among retired members and beneficiaries	(74,373,563)	(211,265,346)
If more deaths occur than assumed, there is a gain. If fewer deaths, there is a loss.		
Disability Retirants	(6,284,006)	7,474,284
If disability claims are less than assumed, there is a gain. If greater increases, there is a loss.		
Salary increase/decrease	(18,585,161)	17,289,939
If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.		
Return to work	(45,596,751)	(23,587,220)
If participants return to work with previous service restored, there is a loss		
New Entrants	(3,381,370)	(3,395,403)
If new entrants join OP&F, there is a loss.		
Deaths among actives	(3,694,668)	(2,982,421)
If claims costs are less than assumed, there is a gain. If more claims, a loss.		
Investments	(197,410,792)	(457,100,471)
If there is a greater investment return than assumed, there is a gain. If less, there is a loss.		
Payroll Growth	1,190,397	194,068
If payroll increases more than assumed, there is a gain. If payroll does not increase as assumed, there is a loss.		
TOTAL GAIN (OR LOSS) DURING THE YEAR	**$ (297,231,367)**	**$ (667,658,902)**

Short–Term Solvency Test

A short–term solvency test is one means of checking a system's progress under its funding program. In a short–term solvency test, the plan's valuation assets are compared with: 1) Active member contributions on deposit; 2) The liabilities for future benefits to present retired lives; 3) The liabilities for service already rendered by active members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances).

In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is very rare.

Accrued Liabilities ($ Amounts in Thousands)

	Valuation Year	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
Police	2000	$ 603,980	$ 2,674,691	$ 1,840,992	$ 4,330,425	100%	100%	57%
Fire	2000	$ 467,926	$ 1,987,723	$ 1,420,252	$ 3,574,761	100%	100%	79%
Police	2001	$ 644,164	$ 2,839,294	$ 1,914,232	$ 4,632,337	100%	100%	60%
Fire	2001	$ 508,155	$ 2,089,072	$ 1,511,366	$ 3,865,732	100%	100%	84%
Police	2002	$ 699,146	$ 3,099,628	$ 1,711,626	$ 5,110,052	100%	100%	77%
Fire	2002	$ 551,227	$ 2,275,967	$ 1,448,172	$ 3,966,417	100%	100%	79%
Police	2003	$ 746,520	$ 3,299,989	$ 1,894,086	$ 4,905,728	100%	100%	45%
Fire	2003	$ 593,228	$ 2,401,021	$ 1,573,523	$ 3,776,976	100%	100%	50%
Police	2004	$ 792,449	$ 3,390,164	$ 1,911,501	$ 5,269,436	100%	100%	57%
Fire	2004	$ 639,074	$ 2,448,043	$ 2,448,043	$ 4,067,667	100%	100%	61%
Police	2005	$ 840,875	$ 3,510,610	$ 2,152,500	$ 5,260,325	100%	100%	42%
Fire	2005	$ 691,252	$ 2,497,311	$ 1,852,502	$ 4,077,137	100%	100%	48%
Police	2006	$894,963	$3,654,099	$2,297,575	$5,364,003	100%	100%	35%
Fire	2006	$747,714	$2,572,229	$2,023,823	$4,186,577	100%	100%	43%

Plan Summary

Purpose

OP&F was established by the Ohio General Assembly to provide pension and disability benefits to members of OP&F and benefits to their surviving spouses, children and dependent parents.

Administration

The administration, control and management of OP&F are vested in the Ohio Police & Fire Pension Board of Trustees which is comprised of the following nine members:

- Three representatives of police departments;
- Three representatives of fire departments;
- Three statutory members—one appointed by the Governor, one by the Treasurer of State, and one appointed jointly by the Senate President and Speaker of the House—must have professional investment expertise.

The representatives of police and fire departments are elected to four–year terms by the respective members, with one police and one fire position being a retired member or surviving spouse.

Membership

Membership in OP&F is mandatory under Ohio law for all full–time police officers employed by Ohio municipalities and appointed under the required statutory provisions. Full–time firefighters employed by townships, municipalities, joint fire districts or other political subdivisions who have satisfactorily completed a firefighter training course approved under former Section 3303.07, Section 4765.55 or conducted under Section 3737.33 of the Ohio Revised Code, are required to be OP&F members.

Contributions

Contributions are established by statute. Employers of police officers pay 19.5 percent of salary; employers of firefighters pay 24 percent of salary. Members contribute 10 percent of salary.

Benefits

Service Retirement

Upon attaining a qualifying age with sufficient service credit, a member of OP&F may retire and receive a lifetime monthly cash pension.

Normal Pension

Eligibility—Age 48 and 25 years of service.

Benefit—An annual pension equal to a percentage of the "average annual salary. "The percentage equals 2.5 percent for each of the first 20 years of service, two percent for each of the next five years of service and 1.5 percent for each year of service in excess of 25 years, to a maximum of 72 percent of the "average annual salary."

Service Commuted

Eligibility—15 years of service.

Benefit—Commencing at age 48 plus 25 years from full–time hire date, whichever is later; an annual pension equal to 1.5 percent of the average annual salary multiplied by the number of full years of service.

Age/Service Commuted

Eligibility—Age 62 and 15 years of service

Benefit—The same formula applies as for the normal service pension.

Disability Benefits

Members who become unable to perform their official duties and whose earning capacities are impaired may qualify for disability benefits.

Disability benefits are classified as either service–incurred (on–duty) or non–service–incurred (off–duty) and differ in eligibility requirements and benefit formulas. Annual medical evaluations are required for disability benefit recipients who would not have met the age and service requirements for normal service retirement, unless the Board waives this requirement based upon an OP&F physician's certification that the disability is ongoing and further evaluation would not be cost effective. OP&F further requires annual earnings statements to be submitted.

Permanent and Total Disability (On–Duty)

Eligibility—No age or service requirement.

Benefit—An annual benefit equal to 72 percent of the "average annual salary."

Partial Disability (On–Duty)

Eligibility—No age or service requirement.

Benefit—An annual benefit fixed by the Board of Trustees to be a certain percent of the "average annual salary" up to 60 percent. If the member has 25 or more years of service, the annual disability benefit is equal to the accrued normal service pension.

Non–service Incurred Disability (Off–Duty)

Eligibility—Any age and five years of service.

Benefit—An annual benefit is the percent awarded by the Board and may not exceed 60 percent of the "average annual salary." Service credit over 25 years cannot be used in calculating an off duty disability award.

Deferred Retirement Option Plan (DROP)

Eligibility—Normal Retirement.

Benefit—The Normal Retirement Benefit is determined at the date of DROP entry and receives annual cost–of–living adjustments (COLAs). DROP annual accrual is the sum of the Normal Retirement Benefit at DROP entry, with applicable COLA paid at DROP anniversary, member contributions credited to DROP and interest credited at a fixed rate of five percent compounded annually.

Member contributions are credited based on the number of years of DROP service under the following schedule:

Years 1 and 2

50 percent of member's contributions (5.0 percent of pay)

Year 3

75 percent of member's contributions (7.5 percent of pay)

Years 4–8

100 percent of member's contributions (10.0 percent of pay)

The minimum participation in DROP, without penalty, is three years and the maximum is eight years. If a member terminates within the first three years of joining DROP, then the member forfeits all of their DROP interest. If a member chooses to continue working after eight years in DROP, the member forfeits all DROP benefits and receives the Normal Retirement Benefit upon retirement, with service during the DROP period included.

At retirement, the member receives their Normal Retirement Benefit determined at the time of DROP entry, including any COLA increases. In addition, the DROP account is available upon request.

If the member dies while participating in DROP, the spouse or designated beneficiary will receive the entire DROP account balance determined at the time of death. The surviving spouse or contingent dependent beneficiary shall receive the greater of the retirement allowance made at the time of DROP entry or the Normal Retirement Benefit paid with COLA adjustments to the date of death, paid as if the member had elected a 50 percent joint and survivor option at death. All other statutory death benefits will apply.

If the member becomes disabled while in DROP, the member can choose either to receive a disability benefit or stay in DROP. If the member stays in DROP, the disability benefit is forfeited. If the member chooses the disability benefit, the member forfeits all DROP benefits and receives the disability benefit, with service during the DROP period included.

Rights Upon Separation From Service

Deferred Pension—If a member meets the service credit requirement for any service retirement pension but leaves service before attaining the required age, a pension becomes payable upon attainment of the qualifying age and filing the appropriate paperwork with OP&F. Refund of contributions—Upon separation from service, a member can receive the contributions made to the plan by himself or, on his behalf, by his employer. Employer contributions are not refundable.

Statutory Survivor Benefits

Eligibility

Upon death of any member of OP&F, active or retired.

Benefit

Surviving Spouse's Benefit—An annual amount equal to $6,600, plus an annual cost of living allowance of three percent of the original base, paid each July 1, beginning July 1, 2000.

Surviving Child—An annual amount equal to $1,800, payable until such child attains age 18 or marries, whichever occurs first. The payment can continue to an unmarried full–time student until age 22. A dependent disabled child is entitled to a benefit regardless of age at time of member's death until marriage, death, or recovery. A cost–of–living allowance of three percent of the original base is payable each July 1.

Dependent Parents—If there is no surviving spouse or children, an annual amount of $2,400 is payable to one dependent parent or $1,200 each to two dependent parents for life or until dependency ceases or remarriage. A cost–of–living allowance of three percent of the original base is payable each July 1.

Lump Sum Death Benefit

On the death of a retired or disabled member of OP&F, a lump sum payment of one thousand dollars ($1,000) is paid to the member's surviving spouse or, if no surviving spouse, to a designated beneficiary. If no spouse or beneficiary, then to the member's estate.

Annuities

Effective February 28, 1980, for those retiring on either service pensions or disability benefits, optional annuity plans can be chosen. Members can elect actuarially reduced benefits under a joint and survivor annuity or life annuity certain and continuous plans. Effective April 25, 1984, Pre–retirement Survivor Annuity was added to the plan, as discussed below.

Annuity Types

Pre–retirement Survivor Annuity

Eligibility—Upon death before retirement but after having satisfied the requirements for normal service retirement.

Benefit—The surviving spouse or contingent dependent beneficiary will receive the equivalent of a 50 percent joint and survivor annuity, calculated under the assumption that the decedent had retired effective the day following his/her death.

Single Life Annuity

Under this plan, a member receives the maximum monthly retirement allowance that the member is entitled to receive and, upon the member's death, none of the member's retirement allowance is continued to a beneficiary.

For unmarried members, this is the standard annuity plan. Married members may elect this plan only if the spouse consents to the selection.

Joint and Survivor Annuity

Under this plan, a member receives a reduced monthly benefit and upon the member's death, a certain percentage of the member's lesser retirement allowance is continued to a surviving beneficiary for life.

For married members, this is the standard annuity plan at the 50 percent continuation level. Any percent between one percent and 100 percent (if less than 50 percent, requires spouses consent) of the members reduced pension may be continued to the surviving nominated beneficiary, if no spouse, the percent continued may be limited based on the beneficiary's age (if someone other than the surviving spouse, only with the spouse's consent). This plan automatically terminates upon death of the beneficiary, to be effective the month following OP&F's receipt of notice of death, or it may be cancelled upon divorce with the consent of the member's spouse or a specific court order.

Members can also have up to four beneficiaries designated or court ordered at the time of retirement, with no less than 10 percent designated to each.

Members whose effective date of retirement is on or after October 27, 2006 can select a multiple beneficiary annuity as their plan of payment. Under this plan, members can designate up to four beneficiaries at the time of retirement, in such portions as specified at retirement.

If there is a court order issued prior to the member's effective date of retirement that requires the member to designate a former spouse as a beneficiary, OP&F must administer the member's retirement by providing for a plan of payment in a specified amount continuing after the member's death to the former spouse in addition to providing for the current spouse, if applicable. This specified amount must be expressed in the court order as a percentage of the member's retirement allowance in order for OP&F to administer the order. OP&F will process such court orders in the order in which they are received by OP&F.

If the member elects the multiple beneficiary annuity plan as required by a court order and the order requires the allocation of a portion less than 10 percent to any beneficiary, the member must make the designation in accordance with that order and OP&F can convert dollar amounts to percentages. In cases of voluntary designations, no amount can be designated that is less than 10 percent. The total of the portions allocated cannot exceed 100 percent of the member's lesser allowance.

If one of the beneficiaries dies following the member's retirement or election to participate in DROP, the portion of the optional plan of payment providing continuing lifetime benefits to the deceased beneficiary will be cancelled. The member will then receive the actuarial equivalent of the member's single lifetime benefit based on the number of remaining beneficiaries, with no change in the amount payable to any remaining beneficiary.

Life Annuity Certain and Continuous

The minimum guarantee is five years and the maximum is 20 years. 100 percent of the members' reduced pension continues to the beneficiary for the guarantee period selected.

Group Health Insurance and Medicare

Commencing January 1, 1974, the Board was authorized to contract for group health insurance on the basis of part or all of the cost of the premium for the coverage to be paid by OP&F. Medical and prescription drug coverage sponsored by OP&F are not rights vested and are subject to change at any time upon action of the Board of Trustees.

Effective January 1, 1977, OP&F was mandated to pay the premium for supplemental Medicare (Part B), upon obtaining the proper documentation from members of their enrollment in the medicare program.

Effective July, 1992, retirees and survivors began making monthly medical/prescription contributions, which are credited to the Health Care Stabilization Fund. These contributions are reviewed on an annual basis to determine adequacy with the rising cost of health care. In 2004, a new contribution strategy was implemented. Retirees and survivors now pay a percentage of the full cost of the benefit. The percentage ranges from 25 percent to 100 percent for themselves and dependents based on the year of retirement, age at retirement, number of years of service, and retirement type.

Tiered Retirement Plan—COLA or Terminal Pay (Non–COLA)

Members retiring on or after July 24, 1986, who had 15 or more years of service as of January 1, 1989, are allowed to select between two different pension calculation plans. Under the terminal pay method, a pension is calculated using terminal payments such as accrued sick leave and vacation compensation to increase the average annual salary, but subject to certain limitations, and these members do not receive cost of living adjustments. Under the COLA method, no terminal payments are added, but the pension is subject to annual increases equal to a three percent increase of the original base per year.

The COLA method is the automatic calculation method for an active member with fewer than 15 years of service as of January 1, 1989. The COLA percentage equals a fixed three percent increase of the original base benefit per year.

Post–Retirement Cost–of–Living Allowance (COLA)

Members who retired prior to July 24, 1986 or their surviving beneficiaries under optional plans are entitled to cost–of–living increases. The annual increase is paid on July 1st of each year. The annual COLA increase is $360 under a Single Life Annuity Plan with proportional reductions for optional payment plans.

Re–employed Retirants' Defined Contribution Plan Benefit

Effective June 30, 1991, every person who is retired under an Ohio public pension plan and who is re–employed in an OP&F covered position must contribute to OP&F at the same rate as other police officers or firefighters. The employer pays the normal rate as well. When the re–employed retirant terminates employment and becomes eligible, he or she has the option of receiving either a lump sum payment or a life time annuity paid monthly.

The monthly annuity option is the equivalent of twice the retirant's contributions, plus interest. A monthly annuity is paid on the first day of the month following the latest of: the day employment was terminated; the attainment of age 60; or one year from the date the member began receiving another OP&F defined contribution benefit. If a monthly annuity would be less than $25 per month, the reemployed retirant must receive a lump sum payment.

If a reemployed retirant is married on the effective date of retirement, the default annuity plan of payment is a 50 percent Joint and Survivor Annuity payable to the member's spouse, unless the spouse consents in writing or the spousal consent requirement is waived by the Board of Trustees. A reemployed retirant who is not married at the time of application for these benefits may choose any annuity payment plan offered by OP&F.

The lump sum payment can be made if the retirant has not attained age 60, provided the retirant has terminated employment, three months have elapsed since the termination of re–employment, and the retirant has not returned to service during the three–month period. In this case, the lump sum will be paid in an amount equal to contributions (i.e., no matching contributions), plus interest. The lump sum payment option can only be selected if the reemployed retirant is unmarried or is married and has obtained his or her spouse's consent, or the Board has waived the requirement of spousal consent.

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The 2006 Comprehensive Annual Financial Report

Statistical Section

The Ohio Police & Fire Pension Fund

Financial Trends
Revenue Capacity Information
Debt Capacity Information
Demographic and Economic Information
Operating Information

Ohio Police & Fire Pension Fund
140 East Town Street • Columbus, Ohio 43215
www.op–f.org • 800–860–9599

Financial Trends

Changes in Fiduciary Net Assets

Combine Trust Fund (dollars in millions)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Additions										
Employer Contributions	$ 374	$ 357	$ 349	$ 337	$ 322	$ 312	$ 305	$ 279	$ 262	$ 248
Member Contributions and Purchases	167	168	166	165	167	150	145	136	129	121
Investment Income	1,630	847	1,152	1,745	(870)	(443)	(165)	1,102	914	1,119
Health Care Contributions	59	55	56	17	13	7	6	6	5	5
Other Revenues	25	11	19	21	18	10	10	13	14	15
Total Additions	**2,255**	**1,438**	**1,742**	**2,285**	**(350)**	**36**	**301**	**1,536**	**1,324**	**1,508**
Deductions										
Benefit Payments	945	877	821	773	678	622	574	543	482	450
Administrative Expenses	17	16	16	17	15	13	13	12	11	8
Refund of Member Contributions	18	16	15	17	17	10	11	11	6	6
Discount on Early Payoff	—	—	—	—	—	4	22	12	9	—
Other Expenses	—	—	—	1	1	1	1	1	1	—
Total Deductions	**980**	**909**	**852**	**808**	**711**	**650**	**621**	**579**	**509**	**464**
Changes in Net Assets	**1,275**	**529**	**890**	**1,477**	**(1,061)**	**(614)**	**(320)**	**957**	**815**	**1,044**
Net Assets— Beginning of Year	**10,337**	**9,808**	**8,918**	**7,441**	**8,502**	**9,116**	**9,436**	**8,479**	**7,664**	**6,620**
Net Assets— End of Year	**11,612**	**10,337**	**9,808**	**8,918**	**7,441**	**8,502**	**9,116**	**9,436**	**8,479**	**7,664**
Reserve Fund Balances										
Employers' Contribution Reserves	3,655	2,687	2,437	1,785	726	2,323	3,301	3,969	3,609	1,509
Members' Contribution Reserves	1,731	1,642	1,532	1,432	1,340	1,250	1,152	1,072	972	931
Health Care Contribution Reserves	437	343	294	231	205	251	277	288	272	249
Pension Reserves	5,789	5,665	5,545	5,470	5,170	4,678	4,386	4,107	3,626	4,975
TOTAL NET ASSETS	**$ 11,612**	**$ 10,337**	**$ 9,808**	**$ 8,918**	**$ 7,441**	**$ 8,502**	**$ 9,116**	**$ 9,436**	**$ 8,479**	**$ 7,664**

Changes in Fiduciary Net Assets

Pension Trust Fund (dollars in millions)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Additions										
Employer Contributions	$ 235	$ 229	$ 224	$ 216	$ 204	$ 203	$ 204	$ 188	$ 182	$ 173
Member Contributions and Purchases	167	168	166	165	167	150	145	136	129	121
Investment Income	1,567	819	1,117	1,690	(847)	(433)	(162)	1,080	891	1,098
Health Care Contributions	—	—	—	—	—	—	—	—	—	—
Other Revenues	11	7	12	18	15	10	10	13	13	14
Total Additions	**1,980**	**1,223**	**1,519**	**2,089**	**(461)**	**(70)**	**197**	**1,417**	**1,215**	**1,406**
Deductions										
Benefit Payments	766	714	663	605	523	493	462	443	398	373
Administrative Expenses	15	13	14	15	13	10	10	9	9	5
Refund of Member Contributions	18	16	15	17	17	10	11	11	6	6
Discount on Early Payoff	—	—	—	—	—	4	22	12	9	—
Other Expenses	—	—	—	1	1	1	1	1	1	—
Total Deductions	**799**	**743**	**692**	**638**	**554**	**518**	**506**	**476**	**423**	**384**
Changes in Net Assets	**1,181**	**480**	**827**	**1,451**	**(1,015)**	**(588)**	**(309)**	**941**	**792**	**1,022**
Net Assets— Beginning of Year	**9,994**	**9,514**	**8,687**	**7,236**	**8,251**	**8,839**	**9,148**	**8,207**	**7,415**	**6,393**
Net Assets— End of Year	**11,175**	**9,994**	**9,514**	**8,687**	**7,236**	**8,251**	**8,839**	**9,148**	**8,207**	**7,415**
Reserve Fund Balances										
Employers' Contribution Reserves	3,655	2,687	2,437	1,785	726	2,323	3,301	3,969	3,609	1,509
Members' Contribution Reserves	1,731	1,642	1,532	1,432	1,340	1,250	1,152	1,072	972	931
Pension Reserves	5,789	5,665	5,545	5,470	5,170	4,678	4,386	4,107	3,626	4,975
TOTAL NET ASSETS	**11,175**	**9,994**	**9,514**	**8,687**	**7,236**	**8,251**	**8,839**	**9,148**	**8,207**	**7,415**

Changes in Fiduciary Net Assets

Health Care Trust Fund (dollars in millions)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Additions										
Employer Contributions	$139	$128	$125	$121	$118	$109	$101	$91	$80	$75
Member Contributions and Purchases	—	—	—	—	—	—	—	—	—	—
Investment Income	63	28	35	55	(23)	(10)	(3)	22	23	21
Health Care Contributions	59	55	56	17	13	7	6	6	5	5
Other Revenues	14	4	7	3	3	—	—	—	1	1
Total Additions	**275**	**215**	**223**	**196**	**111**	**106**	**104**	**119**	**109**	**102**
Deductions										
Benefit Payments	179	163	158	168	155	129	112	100	84	77
Administrative Expenses	2	3	2	2	2	3	3	3	2	3
Refund of Member Contributions	—	—	—	—	—	—	—	—	—	—
Discount on Early Payoff	—	—	—	—	—	—	—	—	—	—
Other Expenses	—	—	—	—	—	—	—	—	—	—
Total Deductions	**181**	**166**	**160**	**170**	**157**	**132**	**115**	**103**	**86**	**80**
Changes in Net Assets	**94**	**49**	**63**	**26**	**(46)**	**(26)**	**(11)**	**16**	**23**	**22**
Net Assets— Beginning of Year	**343**	**294**	**231**	**205**	**251**	**277**	**288**	**272**	**249**	**227**
Net Assets— End of Year	**437**	**343**	**294**	**231**	**205**	**251**	**277**	**288**	**272**	**249**
Reserve Fund Balances										
Health Care Reserves	437	343	294	231	205	251	277	288	272	249
Total Net Assets	**437**	**343**	**294**	**231**	**205**	**251**	**277**	**288**	**272**	**249**

Benefit Expenses by Type (dollars in millions)

Year	Service	DROP**	Disability	Health Care	Survivor	Total Benefits
2006	$377.0	$147.7	$183.5	$178.9	$58.4	$945.4
2005	367.4	117.7	172.5	163.3	55.8	876.7
2004	360.0	86.5	162.2	157.8	54.4	820.8
2003	350.5	53.7	149.6	168.1	52.0	773.9
2002	336.0	—	137.6	153.7	50.4	677.6
2001	319.6	—	125.0	129.2	47.8	621.6
2000	301.3	—	115.1	111.8	45.7	573.8
1999	282.8	—	107.4	100.5	51.9	542.7
1998	263.2	—	101.4	83.9	33.5	482.1
1997	244.0	—	97.1	76.5	32.4	450.0

** Implementation date of January 1, 2003.

Revenues by Source (dollars in millions)

Year	Employer Contributions	Member Contributions and Purchases	Employer Contribution as a Percentage of Covered Payroll	Investment and Securities Lending income	Health Care Contributions	Other Revenues	Total Revenues
2006	$ 373.9	$ 167.4	21.3%	$1,629.8	$ 58.5	$ 25.1	$ 2,254.9
2005	357.0	167.8	21.2%	847.4	55.3	11.4	1,438.9
2004	349.4	165.9	21.2%	1,152.4	55.7	18.8	1,742.2
2003	337.2	164.5	20.5%	1,745.2	17.2	21.2	2,285.3
2002	321.7	167.1	19.2%	(870.4)	12.6	18.5	(350.5)
2001	312.1	150.5	20.7%	(443.5)	6.9	9.9	35.9
2000	304.9	145.0	21.0%	(165.1)	5.7	10.8	301.2
1999	279.5	135.8	20.6%	1,101.8	5.5	13.3	1,535.9
1998	261.6	128.7	20.3%	913.7	5.3	13.8	1,323.3
1997	248.1	121.1	20.5%	1,118.9	5.3	14.2	1,507.6

Expenses by Type (dollars in millions)

Year	Benefit Payments	Administrative Expenses	Refund of Member Contributions	Discount on Early Payoff	Other Expenses	Total Expenses
2006	$ 945.4	$ 16.8	$ 18.0	—	$ (0.4)	$ 979.8
2005	876.7	15.9	16.5	—	0.2	909.3
2004	820.8	15.9	15.3	—	0.2	852.2
2003	773.9	16.7	16.8	—	1.2	808.6
2002	677.6	14.9	16.8	—	1.0	710.3
2001	621.6	13.1	10.4	$ 3.7	1.1	649.9
2000	573.8	13.2	11.1	22.3	0.7	621.1
1999	542.7	11.5	11.4	12.5	0.9	579.0
1998	482.1	10.9	5.7	8.9	0.6	508.1
1997	450.0	8.2	5.7	—	0.4	464.2

DROP Program Liability Balance (in millions)

	2006	2005	2004	2003
Police				
DROP Liability Beginning Balance	$ 161.5	$ 87.7	$ 34.1	—
Accrued Pension & Cola	74.6	62.3	47.8	$ 31.6
Accrued Member Share Contributions	9.0	5.6	2.9	1.8
Accrued Interest	10.0	6.0	2.9	0.7
Withdrawals	8.3	0.1	0.0	—
DROP Liability Ending Balance	**246.8**	**161.5**	**87.7**	**34.1**
Fire				
DROP Liability Beginning Balance	113.6	60.3	22.6	—
Accrued Pension & Cola	55.8	45.2	33.6	20.9
Accrued Member Share Contributions	6.9	3.9	2.1	1.2
Accrued Interest	7.2	4.2	2.0	0.5
Withdrawals	3.5	—	—	—
DROP Liability Ending Balance	**180.0**	**113.6**	**60.3**	**22.6**
Combine Police & Fire				
DROP Liability Beginning Balance	275.1	148.0	56.7	—
Accrued Pension & Cola	130.4	107.5	81.4	52.5
Accrued Member Share Contributions	15.9	9.5	5.0	3.0
Accrued Interest	17.2	10.2	4.9	1.2
Withdrawals	11.8	0.1	—	—
DROP Liability Ending Balance	**$426.8**	**$275.1**	**$148.0**	**$56.7**

Revenue Capacity Information

Active Member & Total Payroll Base Statistics (dollars in millions)

Year	Payroll base	Member Contributions	# of Members*	% Change in Payroll Base	% Change in Member Contributions	% Change in Members
2005	$1,756	$167	28,026	4.3%	–0.2%	0.5%
2004	1,684	168	27,879	2.2%	1.1%	–2.0%
2003	1,644	166	28,441	2.4%	0.9%	–0.1%
2002	1,606	164	28,480	4.7%	–1.6%	0.5%
2001	1,534	167	28,328	9.0%	11.0%	1.4%
2000	1,408	151	27,936	5.2%	3.8%	1.1%
1999	1,339	145	27,642	7.2%	6.7%	1.9%
1998	1,249	136	27,133	4.9%	5.5%	2.4%
1997	1,191	129	26,495	6.3%	6.2%	2.6%
1996	1,120	121	25,823	5.0%	5.0%	2.1%

*Includes rehired retirees

Retirants and Beneficiaries Added to and Removed from Rolls (dollars in thousands)

	Added to rolls		Removed from rolls		Rolls end of year			
Year	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	Percentage Change in Allowance	Average Annual Allowances
2005	916	19,803	797	12,132	24,459	$601,775	3.64%	0.49%
2004	963	22,166	759	11,407	24,340	580,645	4.00%	0.85%
2003	975	23,887	762	10,722	24,136	558,305	2.82%	0.89%
2002	1,257		747		23,923	542,997	6.45%	2.18%
2001	1,174		774		23,413	510,080		1.74%
2000	1,456		832		23,013			2.79%
1999	1,417		793		22,389			3.01%
1998	1,041		758		21,765			
1997	1,426		758		21,482			
1996	—		—		20,814			

*Includes rehired retirees

Active Membership Data

Number and Average Annual Salary*

	Years of Service									
Age	**0–4**	**5–9**	**10–14**	**15–19**	**20–24**	**25–29**	**30–34**	**35–39**	**40+**	**Total**
Under 25	474	3								**477**
	$41,280	$58,980								**$41,391**
25–29	1,807	733	2							**2,542**
	$49,180	$58,761	$62,934							**$51,954**
30–34	1,386	2,772	665	6						**4,829**
	$50,321	$59,098	$62,806	$65,545						**$57,098**
35–39	658	1,947	2,546	859	16					**6,026**
	$48,955	$58,832	$62,648	$66,384	$69,995					**$60,472**
40–44	241	690	1,485	2,150	681	13				**5,260**
	$49,320	$58,306	$61,358	$65,884	$68,918	$71,057				**$63,259**
45–49	99	234	510	1,023	1,486	756	22			**4,130**
	$50,319	$56,536	$60,626	$63,770	$68,906	$72,967	$80,364			**$66,269**
50–54	29	84	173	361	748	1,223	390	10		**3,018**
	$49,342	$54,761	$58,648	$61,881	$66,621	$70,984	$75,568	$86,396		**$68,091**
55–59	18	32	64	114	157	312	436	140		**1,273**
	$48,461	$53,614	$54,374	$61,550	$61,689	$65,799	$72,703	$74,951		**$67,157**
60–64	4	9	13	17	27	27	78	89	12	**276**
	$47,638	$54,093	$50,420	$56,665	$55,850	$63,788	$70,408	$71,674	$71,498	**$66,142**
Over 64	3	1	3	5	1	1	2	18	19	**53**
	$67,497	$67,270	$70,756	$46,580	$52,802	$65,181	$63,286	$69,573	$74,253	**$68,351**
Total	**4,719**	**6,505**	**5,461**	**4,535**	**3,116**	**2,332**	**928**	**257**	**31**	**27,884**
	$48,730	**$58,716**	**$61,879**	**$65,018**	**$67,884**	**$70,848**	**$73,875**	**$73,885**	**$73,187**	**$61,370**

*Excludes rehired retirees

Retired Membership by Type of Benefits

	Service		Disability		Survivors		Total
Year	**Police**	**Fire**	**Police**	**Fire**	**Police**	**Fire**	**Beneficiaries**
2006	6,419	5,045	3,521	2,403	3,982	3,089	24,459
2005	6,452	5,101	3,429	2,364	3,931	3,063	24,340
2004	6,459	5,173	3,291	2,300	3,912	3,001	24,136
2003	6,418	5,188	3,193	2,202	3,916	3,006	23,923
2002	6,321	5,155	3,055	2,088	3,798	2,996	23,413
2001	6,312	5,155	3,046	2,082	3,244	2,550	22,389
2000	6,204	5,125	2,947	2,021	3,211	2,451	21,959
1999	5,968	5,004	2,841	1,945	3,162	2,472	21,392
1998	5,571	4,926	2,749	1,869	3,104	2,391	20,610
1997	5,602	4,858	2,739	1,861	2,898	2,306	20,264

Retired Membership by Type of Benefits

	Service		Disability		Survivor & Beneficiaries	
Age Last Birthday	Number	Avg. Allowance	Number	Avg. Allowance	Number	Avg. Allowance
Under 60	3,217	$ 37,943	3,263	$ 31,515	1,459	$ 7,678
60–64	2,371	36,617	999	30,508	607	9,276
65–69	1,839	34,111	738	28,683	733	8,615
70–74	1,386	28,422	399	24,932	990	8,187
75–79	1,457	24,101	353	21,103	1,320	7,935
Over 79	1,194	19,981	172	18,653	1,962	7,638
TOTAL	**11,464**	**$ 32,273**	**5,924**	**$ 29,555**	**7,071**	**$ 8,020**

Retirees and Beneficiaries Statistics (dollars in millions)

Year	Benefit Payments*	Refunds	Total Payments*	# of Benefit Recipients**	% Change in Benefit Recipients	% Change Total Benefit Payments
2006	$ 767	$ 18	$ 785	24,766	0.8%	7.5%
2005	713	16	730	24,564	0.9%	7.6%
2004	663	15	678	24,347	1.1%	8.9%
2003	606	17	623	24,081	2.3%	15.1%
2002	524	17	541	23,546	2.3%	7.5%
2001	492	10	503	23,013	2.8%	6.3%
2000	462	11	473	22,389	3.0%	4.3%
1999	442	11	454	21,734	3.1%	12.3%
1998	398	6	404	21,081	1.6%	6.5%
1997	373	6	379	20,739	2.8%	7.0%

* Excludes Health Care Benefits

** Includes Terminated employees entitled to benefits but not yet receiving them

Average Monthly Benefit Payments

Service Retirement*

Year	Normal	Service Commuted	Age Commuted	Age / Service
2006	$ 3,274	$ 1,068	—	$ 1,665
2005	3,125	1,102	—	1,231
2004	3,128	1,081	—	1,673
2003	3,150	990	—	1,569
2002	3,130	742	—	1,840
2001	2,987	830	—	1,500
2000	2,783	732	—	1,232
1999	2,828	653	—	1,300
1998	2,780	835	—	2,091
1997	2,624	564	—	1,311

Disability Retirement*

Year	Permanent and Total	P&T Presumptive	Partial	Partial Presumptive	Off Duty
2006	$ 3,341	$ 2,930	$ 2,793	$ 2,939	$ 2,306
2005	3,327	3,254	2,624	3,160	1,924
2004	3,209	3,163	2,712	3,080	2,167
2003	3,133	3,203	2,854	3,042	2,029
2002	2,970	3,029	2,672	2,965	1,993
2001	2,373	2,858	2,332	2,278	1,649
2000	2,380	2,061	2,380	2,258	1,760
1999	2,388	2,559	2,194	2,361	1,629
1998	2,321	2,968	1,953	2,134	1,330
1997	2,454	2,633	1,853	2,129	1,220

* Source: Numbers calculated by taking an average of final placements for retirees as listed in OP&F Board of Trustees monthly reports.

Member Health Care Contributions (dollars in millions)

Year	Contributions	% Change in Contributions Received	Number of Covered Lives	Health Care Benefit Payments	% of Benefit Payments Covered by Member Contributions	Net Benefit Payment Per Covered Life
2006	$ 59	6%	28,100	$179	33%	$ 0.00428
2005	55	–1%	29,006	163	34%	0.00372
2004	56	223%	29,708	158	35%	0.00344
2003	17	36%	35,513	168	10%	0.00425
2002	13	84%	35,452	154	8%	0.00398
2001	7	22%	35,290	129	5%	0.00347
2000	6	3%	34,499	112	5%	0.00308
1999	6	3%	33,545	101	5%	0.00283
1998	5	2%	32,842	84	6%	0.00239
1997	5	3%	32,361	76	7%	0.00220

State of Ohio Subsidy Payments (dollars in millions)

Year	Subsidy Amount	% Change
2006	$ 1.08	–9%
2005*	1.19	–53%
2004	2.50	–5%
2003	2.64	–5%
2002	2.78	–5%
2001	2.93	–6%
2000	3.11	–5%
1999	3.28	–6%
1998	3.48	–6%
1997	3.70	–6%

* In 2005, the State of Ohio repealed the annual $1.2 million subsidy provided to OP&F

Employer Contribution Rates (1967–present)

	Employer Rates	
From Jan. 1 to Dec. 31,	Police	Fire
1986 – present	19.50%	24.00%
1985	20.03	24.59
1984	21.35	24.59
1983	18.45	23.57
1982	16.62	22.39
1981	15.60	20.72
1980	15.70	19.87
1979	18.40	20.11
1978	17.53	18.90
1977	15.34	16.77
1976	14.02	15.57
1975	12.49	13.78
1974	12.88	13.60
1973	12.85	13.41
1972	12.96	13.26
1971	12.81	12.96
1970	15.52	15.52
1969	14.68	14.49
1968	13.66	13.50
1967	13.55	13.13

Member Contribution Rates (1967–present)

	Time Frame of Rates	
Member Rates	**Police**	**Fire**
09–09–88 thru Present	10.00%	10.00%
08–01–86 thru 09–08–88	9.50	9.50
03–01–80 thru 07–31–86	8.50	8.50
01–01–68 thru 02–28–80	7.00	7.00
01–01–67 thru 12–31–67	6.00	6.00

Actuarial Interest Rates (1967–present)

01–01–89 thru Present	8.250%	8.250%
01–01–86 thru 12–31–88	7.750	7.750
01–01–83 thru 12–31–85	7.500	7.500
01–01–80 thru 12–31–82	6.375	6.375
01–01–79 thru 12–31–79	6.000	6.000
01–01–74 thru 12–31–78	5.000	5.000
01–01–72 thru 12–31–73	4.750	4.750
01–01–70 thru 12–31–71	4.625	4.625
01–01–67 thru 12–31–69	4.250	4.250

Actuarial Valuation Information (dollars in millions)

As of January 1, Valuation Year	Valuation Assets	Actual Accrued Actuarial Liabilities (AAL)	Unfunded/(Overfunded) Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	Funding Period in Years
2006	$ 9,551	$ 12,190	$ 2,639	78.35%	$ 1,756	Infinite
2005	9,337	11,545	2,208	80.88%	1,684	Infinite
2004	9,337	10,798	1,461	86.47%	1,644	Infinite
2003	8,683	10,508	1,825	82.63%	1,606	Infinite
2002	9,076	9,786	710	92.75%	1,534	28.00
2001	8,498	9,506	1,008	89.39%	1,408	29.49
2000	7,989	8,996	1,007	88.81%	1,339	26.78
1999	7,307	8,453	1,146	86.44%	1,249	47.26
1998	6,231	7,698	1,467	80.95%	1,191	56.71
1997	5,554	7,025	1,471	79.07%	1,120	43.49

Historical Annual Investment Results

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
U.S. Equity										
OP&F	14.80%	7.59%	13.11%	30.00%	−19.81%	−7.47%	−2.96%	17.41%	17.58%	28.95%
International Equity										
OP&F	28.24%	14.10%	21.18%	35.92%	−17.70%	−23.54%	−18.49%	41.10%	20.55%	3.16%
Emerging Markets										
OP&F	N/A	26.24%	22.68%	58.23%	−8.69%	−4.14%	−29.40%	43.95%	N/A	N/A
Fixed Income										
OP&F—Core	4.59%	2.67%	4.75%	5.35%	8.60%	10.76%	12.79%	0.36%	7.67%	9.10%
OP&F—High Yield	10.22%	2.61%	10.65%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
OP&F—TIPS	2.97%	2.96%	6.97%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
OP&F—Commercial Mortgage*	5.08%	9.83%	4.82%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Real Estate *										
OP&F	26.60%	26.07%	14.14%	13.06%	5.70%	11.84%	9.30%	13.71%	18.62%	14.91%
Private Equity *										
OP&F	17.43%	26.76%	7.15%	−13.15%	−21.61%	−26.14%	61.65%	34.76%	−0.12%	30.62%
Total Portfolio										
OP&F	16.15%	9.07%	13.29%	24.96%	−9.90%	−3.88%	−1.10%	13.82%	13.75%	17.15%
** Policy Index	15.69%	8.98%	12.84%	26.47%	−10.81%	−6.60%	−3.16%	16.15%	15.64%	17.28%

* One quarter in arrears

** Policy Benchmark—OP&F's policy benchmark has changed over time—Current reflects 46 percent DJ Wilshire 5000, 18 percent Lehman Aggregate, 20 percent of MSCI ACWI ex–US, eight percent NCREIF Property Index, five percent CSFB Dev. Countries HY, three percent DJ Wilshire 5000 + five percent

Debt Capacity Information

Debt Capacity Information

OP&F does not have any outstanding debt, nor are there any plans to pursue issuing debt anytime in the future.

Demographic and Economic Information

Number of Employer Units

	Municipalities		Townships		Villages		Total		Total
Year	Police	Fire	Police	Fire	Police	Fire	Police	Fire	Both
2006	252	225	0	119	284	32	536	376	912
2005	251	224	0	113	286	31	537	368	905
2004	252	225	0	109	288	29	540	363	903
2003	252	223	0	110	289	29	541	362	903
2002	252	219	0	106	307	29	559	354	913
2001	251	215	0	105	322	32	573	352	925
2000	258	213	0	105	332	32	590	350	940
1999	270	213	0	107	351	33	621	353	974
1998	269	214	0	107	347	33	616	354	970
1997	242	195	0	88	340	33	582	316	898

Principal Participating Employers

Employer Name	Covered Employees	Rank	% of Total Covered Members
City of Columbus	3,421	1	12.21%
City of Cleveland	2,568	2	9.16%
City of Cincinnati	1,957	3	6.98%
City of Toledo	1,211	4	4.32%
City of Akron	847	5	3.02%
City of Dayton	771	6	2.75%
City of Canton	345	7	1.23%
City of Youngstown	327	8	1.17%
City of Springfield	268	9	0.96%
City of Hamilton	244	10	0.87%
All Others	16,067		57.33%
TOTAL	**28,026**		**100.00%**

Operating Information

OP&F Employee Budgeted Position Counts

Department	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Administration	45	42	44	38	40	40	23	21	19	18
Finance	13	16	16	28	29	29	28	28	34	29
Health Care Services*	0	0	16	15	15	15	32	31	28	22
Information Services	25	25	26	29	31	31	29	28	27	20
Investments	14	14	17	15	18	18	18	18	16	10
Member Services	64	69	56	56	57	53	45	44	33	29
Projects	0	0	0	0	0	2	11	0	0	0
TOTAL FULL–TIME POSITIONS	**161**	**166**	**175**	**181**	**190**	**188**	**186**	**170**	**157**	**128**

*Health Care Services was combine with Member Services in 2006

Personnel Salaries by Year (dollars in thousands)

	2006	2005	2004	2003	2002	2001	2000	1999	1998
Salaries & Wages	$8,763.8	$8,963.4	$9,037.8	$9,144.8	$7,667.9	$4,912.3	$7,058.5	$6,154.7	$4,912.3
Average Salary per Budgeted Staff	$52.8	$51.2	$49.9	$48.1	$40.8	$26.4	$41.5	$39.2	$38.4

OP&F Budget* (dollars in millions)

	2006	2005	2004	2003	2002	2001	2000	1999	1998
Operating Actual Expenses	$41.7	$38.7	$41.3	$35.9	$33.3	$30.0	$28.1	$24.0	$23.3
Operating Budget Expenses	48.5	44.1	45.0	35.9	38.4	37.0	28.1	27.2	25.3
% Budget vs Actual	86%	88%	92%	100%	87%	81%	100%	88%	92%
Capital Actual	$0.7	$2.0	$2.4	$3.2	$3.6	$3.0	$0.3	$1.0	$0.2
Capital Budget	5.8	5.0	2.8	4.4	5.0	6.0	0.9	2.6	1.1
% Budget vs Actual	11%	39%	88%	75%	72%	51%	34%	39%	21%
Operating Actual Expenses	$14.7	$13.9	$14.2	$15.4	$13.8	$12.1	$12.2	$10.6	$10.4
Investment Actual Expenses	27.0	24.8	27.0	20.5	19.5	17.9	15.9	13.4	12.9

* 1998 was the first year a budget was approved and excludes capital depreciation

Other Operating Statistics

	2006	2005	2004	2003	2002	2001	2000	1999	1998
Total Staff	166	175	181	190	188	186	170	157	128
Investment Staff	14	17	15	18	18	18	18	16	10
Investment Actual Expenses	$27	$25	$27	$21	$19	$18	$16	$13	$13
Investment Income	$1,630	$847	$1,152	$1,745	$(870)	$(443)	$(165)	$1,102	$914
Investment Staff to Investment Expense Ratio	$2	$1	$2	$1	$1	$1	$1	$1	$1
Investment Income to Total Staff Ratio	$9.8	$4.8	$6.4	$9.2	$(4.6)	$(2.4)	$(1.0)	$7.0	$7.1
Investment Income to Investment Staff Ratio	$116.4	$49.8	$76.8	$97.0	$(48.4)	$(24.6)	$(9.2)	$68.9	$91.4

Death Benefit Fund

Pursuant to Section 742.63 of the Ohio Revised Code, the Board of Trustees of the Ohio Police and Fire Pension Fund administers the State of Ohio Death Benefit Fund (DBF). This program was established by the State of Ohio to provide monthly benefit payments to surviving family members of Ohio fire fighters and law enforcement officers who have been killed in the line of duty or die of a duty–related accident or illness. Funds are disbursed to OP&F, on a quarterly basis, each State fiscal year (July 1–June 30) and benefits are paid monthly by OP&F to eligible recipients. The unused balance at June 30 is returned to the State. The assets and liabilities of the DBF are included in the Fund's combining statement of plan net assets as of December 31, 2006 as an agency fund. The following is a schedule of DBF financial activity:

Balance January 1, 2006	**$511,328**
Less: Survivor Benefits Paid January 1 to June 30, 2006	10,048,436
Balance returned to State of Ohio	(522,539)
State Funding Received	20,000,000
Less: Survivor Benefits Paid July 1—December 31, 2006	9,520,091
Balance December 31, 2006	**$ 420,262**

Ohio Police & Fire Pension Fund

140 East Town Street
Columbus, Ohio 43215

Active Membership: 888–864–8363
Retirees and Survivors: 800–860–9599
General Information: (614) 228–2975
TTY: (614) 221–3846
Facsimile: (614) 628–1777
E–mail: questions@op–f.org

www.op–f.org

Prudence • Integrity • Empathy

The Ohio Police & Fire Pension Fund (OP&F) is dedicated to providing retirement and related benefits, accurate information, dependable communication and valuable educational assistance to our members. As responsible fiduciaries, we will professionally manage the resources of OP&F and implement its practices, plans and benefit services with the highest ethical standards.